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## The Institute of Bankers.

JOHN B. MARTIN, Esq., in the Chair.

### ITALIAN FINANCE.

By CORNELIS ROZENRAAD, Fellow of the Institute.  
[Delivered before the Institute, Wednesday, Feb. 6th, 1895.]

Having been invited by the Institute of Bankers to give you a sketch of the financial situation of Italy, I lay before you the result of my impressions and studies with regard to a country with which I have been in close business relations for more than sixteen years.

In order to form a correct idea of the financial situation of Italy, we must go back to 1860, at the time of the union of the various States of Italy, when the new kingdom received as the inheritance of that unification a debt of 2241 million lire (over £89,000,000), and on the basis of the budgets of the former States, its first Budget was established, with a deficit of 102 million lire (over 4 millions sterling), and this deficit went on increasing. Only very meagre receipts were available to meet the ever growing expenditure, and it became necessary to have recourse to important loans and to issues of paper money in order to provide for the lack of funds in the Treasury. In a word the Government had to resort to all sorts of expedients to overcome its financial embarrassments; the State Railways were sold, the tax-payers were required to pay their dues in advance, and at the time of the war with Austria in 1866, the Government imposed a forced loan upon the country.

This war which cost Italy 800 million lire was not calculated to improve matters. The credit of the State had fallen to such a level, that a fresh appeal to public credit was not to be thought of. The Government Stock had fallen to 36 per cent., and not only was it enacted that the notes of the Banca Nazionale should become forced currency, but, as a consequence of the lack of small change, the Government was compelled to lower more and more the denomination of the notes. After having begun in 1855 by issuing notes of 1000 lire, notes of 20 lire were issued in 1857, notes of 10 and 5 lire in 1866, and notes of 5 and 1 lire in 1867, followed soon after, by notes of 50 centesimi, and the aggregate of these small notes, soon exceeded 300 million lire (12 millions sterling). During the period from 1866 to 1870, the expenditure of the budget exceeded the revenue by 1500 million

lire (60 millions sterling), and this, notwithstanding every kind of fresh taxes on real property and on produce, and finally, the Government was obliged to declare, through its Minister of Finances that they were driving headlong towards bankruptcy unless the country submitted to a fresh sacrifice; to the tax on flour, a highly unpopular, and an odious tax; and the Italian nation who had already borne such heavy burdens with admirable devotion, resigned itself to this fresh tax, which brought immediately 80 million lire into the Treasury.

The expenditure was besides reduced to a minimum, the salaries of civil servants were brought down to an impossible figure, in fact both the Government and Parliament realised, that they must at any cost save themselves from rushing into the abyss which threatened to engulf the young monarchy.

Thanks then to energetic measures, and thanks also to great sacrifices, the crisis was gradually overcome, and, little by little the deficit disappeared until the budget of 1875 showed an excess of revenue over expenditure of 13 million lire (or 520,000 pounds sterling).

But it was not sufficient to remove the deficit; it was also imperative to stop the repeated issues of paper money. From 450 million lire or 18 millions sterling in 1870, the circulation of paper money reached, in 1875, 940 million lire (or 37,000,000 sterling). The effect of these repeated issues of paper money was a permanent premium on gold, which in 1866 was at 20 per cent., and, in 1879, between 8 and 12 per cent. These fluctuations naturally weighed heavily upon the country and introduced an element of great uncertainty into all business transactions, checking the development of production and trade. In a word, the nation was experiencing all the drawbacks of a forced currency.

Up to now, the state of the finances of Italy did not admit even a thought of the abolition of the forced currency, but, as I have just said, from 1875 the financial situation began to improve. From that year the budgets (exclusive of the cost of railways) showed every year an excess of revenue, which, from 13 million lire (520,000 pounds) in 1875, reached 42 million lire (or over one million and a half sterling) in 1876, and 50 million lire (or 2 millions sterling) in 1880. In view of this improvement in the budget, and as a natural consequence of the recovery of public credit (Italian Government Stock varying between 70 and 75 per cent.), the time seemed favourable, to ascertain if they were not possible to deliver Italy from the plague of paper money.

After an exhaustive study of the question, based upon complete and reliable statistics, which brought out the excellent

state of the budget from every aspect, the Government came to the conclusion that the economic and financial forces of the nation warranted the hope of a successful issue of the great operation of the abolition of the forced currency.

The Government was authorized to issue a 5 per cent. loan of 644 million lire, of which 444 million lire were to be paid in gold, and 200 millions in silver. This loan was taken up firm on the 8th July, 1881, at 88½, by the National Bank of Italy, Messrs. Baring Brothers & Co., C. J. Hambro and Son, the Banque d'Escompte de Paris and the Crédit Mobilier Italien. In order to remit to the Italian Government 644 million lire, the contracting parties to the loan had therefore to place 729 million lire (or 29 millions sterling), nominal capital of Italian rente 5 per cent., and to procure for Italy, 444 million lire in gold and 200 million lire in silver. It was not without the deepest apprehension, that experts in finance watched this enormous operation, the success of which was to have a decisive influence upon the development of prosperity in Italy. It was asked how it would be possible to lay down in the kingdom, 444 million lire in gold, without creating the gravest financial disturbances on the markets of the whole world. The contractors of the loan were not to be dismayed by these gloomy provisions, and thanks to their energy, ability and perseverance, in the face of untold difficulties, they delivered to the Government at the end of January, 1883, not 444 million lire, but 491 million lire in gold, or 47 millions more than was stipulated, and this without causing the least perturbation on the money market, as can be seen by the annexed particulars.

But not only was it predicted that it would be impossible to procure 400 million lire in gold without disturbing the exchanges, other impossibilities had been arrayed, each one of which was in itself sufficient to render of no effect the pretended reform of the fiduciary system in Italy, and to prevent the abolition of the forced currency from becoming in practice anything but an empty word, void of meaning, a pretension, the absurdity of which was shown by the very nature of things.

It was said that the gold would not make a very long stay in Italy. The day, when the banks would begin to exchange paper for the precious metal, the masses would be drawn in crowds, eager to give up their notes and carry away the gold, which they would at once hoard away out of sight in those impenetrable secret recesses whence it is brought out only under circumstances of exceptional gravity or under the stress of pressing necessity.

Those who thought this picture somewhat overdrawn were, however, led to believe that the movements of trade alone would

provoke such an export of gold that scarcely had the new coins been put in circulation they would, without delay, recross the frontier.

It is curious to note that the Government itself shared these fears to a certain extent, and did not attempt to conceal them, its anxiety in this respect being evident from the great detail of its regulations as to the course of the operation, upon the quantity of notes to be exchanged, day by day, upon the proportion between the sums in gold and in silver to be given to the public.

These gloomy portents were, however, not destined to be realised, and the prophets of ill omen had their trouble for nothing. They had forgotten to take into account the good sense of the Italian people. Whilst the financiers saw with some curiosity, even with anxiety, the approach of the day fixed for the resumption of specie payments (April 12th, 1883), the general public, knowing that the gold was there, remained indifferent to all this emotion, and scarcely went out of its way when the day finally arrived. Economists were astounded at the unconcern of the masses, and it may be said that it was in the midst of almost general indifference that the first exchanges of notes for metal took place. The exchanges for the whole kingdom scarcely reached three million lire (or £120,000) on the 12th April, so little did the public appear impatient.

The resumption of specie payments which financiers at home and abroad had thought so rash, succeeded admirably from the beginning, without creating the least perturbation. It was sustained in the months following by a total absence of demand for gold for abroad, and by the complete calm prevailing over the whole domain of monetary transactions. From the middle of April, 1883, to the end of the same year, exchange remained favourable to Italy; as a matter of fact, the highest rate on Paris was 99.50, that is, below par. In 1884 the average was about par. Meanwhile, Italian Government Stock being more and more taken up by private investors abroad, was slowly creeping up to par; everything, in a word, was suggestive of the transformation and regeneration of Italy. It was the decisive operation of the abolition of the forced currency which led to the discovery, as by magic, of the enormous progress made by the young kingdom in a few years, in all branches of financial, industrial and commercial activity. This progress was accomplished by continued and steady labour, but the great results of all this could only become manifest to all on the day when an energetic effort, a firm resolution and the conception, both prudent and bold, of a masterly operation would rid Italy at one stroke of the curse of paper money. Successive years of chronic deficit were succeeded

by the final re-establishment of the equilibrium in the Budget, by the constant increase of the Revenue, combined with the more intelligent application of the resources to all useful works, by the suppression of unpopular and oppressive taxes, and, finally, by a well set scheme for the construction of a network of railways that was to free the economic development of the kingdom from its remaining obstacles.

But it is with nations as with individuals; in the presence of continued success few can steer within the limits of wisdom. Italy, dazzled and carried away by the astounding progress of the public wealth, instead of giving a permanent basis to her splendid position, became less and less prudent during the few years that followed the abolition of the forced currency. Having placed the finances on a sound footing, Italy was anxious to enter the field of politics, to have an army and a navy worthy of a great power, to embark in colonial enterprise, in a word, went ahead too fast. Instead of maintaining a wise neutrality, in which as queen of the Mediterranean she had every advantage, Italy entered into an alliance with Germany and Austria, and wishing to appear worthy of her allies, although threatened by no one, the military and naval expenditure were constantly increased. The average annual war and marine budget which from 1878 to 1882 amounted to 266 million lire, rose by successive stages to nearly double that amount in 1890-91. Besides this, wishing to follow in the footsteps of those great colonizing countries, England, Holland and France, and seeing Germany and Belgium in search of fresh outlets by the conquest of countries beyond the sea, Italy in her turn indulged in dreams of expansion in distant lands, losing sight of the fact that the finances of the above European countries were on a far more solid basis than those of the young kingdom whose debt was to a great extent held abroad.

At the same time Italy, forgetting that it was due to the support of the French market that the greater portion of the loan of 644 million lire was successfully placed (out of 42 million lire paid abroad on the coupon of Italian Stock on January, 1884, 32½ millions were paid in Paris), forgetting, furthermore, that France had not only contributed in freeing Italy from the Austrian yoke, and that French blood had been shed for her at Magenta, but also that her canals, railways and harbours had been constructed with French capital, and that Paris was still the largest market for the Italian Rente, Italy, I say, assumed anything but a cordial attitude towards France. Several Italian papers wrote articles the reverse of complimentary about the neighbouring power, and the French papers did not hesitate to reply in a similar tone. This newspaper warfare was unfortunately only the forerunner of the breaking off of commercial relations between the two countries. In 1888 Italy

put an end to the treaty of commerce with France, and thus did considerable injury to Italian exports, which were greatly reduced through the loss of such an important customer.

So that after the newspaper war came the tariff war, to be succeeded by the financial war. Failing to find any interest in upholding the finances of a country that followed a policy directly opposed to French interests, France began to get rid of its Italian Stock, which, until now, and in spite of everything, she had so loyally supported. The Five per Cent. Rente, which, in 1886, had risen to 102.55, and the conversion of which was merely a question of time, gradually fell below par and stood for a while in 1888 at 92.05, but, thanks to the intervention of German capitalists who were desirous of helping their ally, it rose to 96.25. On the other hand, the Italian Savings Banks endeavoured to supply the counterpart of the French sales of Italian Stock. We must not be surprised at this intervention of the Savings Banks, for, after the abolition of the forced currency, and before the rupture of the treaty of commerce with France, business had received a great impetus in Italy. Many fortunes had been made, and from the upper and middle classes these fortunes had spread rapidly to the working classes. This is shown by the 5,406 Savings Banks in existence in 1888 holding deposits of 1,250 million lire (50 millions sterling). The Italians are an industrious and saving nation, and Mr. Magliani, former Italian Minister of finances, estimated at no less than 900 million lire (36 millions sterling), the annual savings of the people in Italy. But in spite of this intervention of German capital, in spite of the purchases of the Savings Banks, who invest generally two-sevenths of their deposits in government stock, it was not possible to keep pace with the sales effected in Paris, and as a result the tendency of the Italian Rente was of the weakest.

Again in their mad desire for display, the government and parliament ordered the construction of numerous and magnificent palaces and of railways, both of which should have been put off till better times, and by degrees the financial situation, formerly so brilliant, became worse and worse. Already in 1886, as a result of the ever-increasing military expenditure, the deficit had reached 211 million lire; in 1887, 218 millions; in 1888, 384 millions; and, in 1889, 455 millions (over 19 millions sterling). At the same time, the public debt had considerably increased. Mr. Magliani had endeavoured to induce parliament to close the public debt ledger, and to sanction no expenditure involving fresh debts, but all to no purpose. On the 31st December, 1861, the public debt of Italy amounted to 3,000 million lire (120 millions sterling); in 1888 it was 11,000 million lire (440 millions sterling). Without resorting to public issues of Government stock (the loan of 644

million lire for the abolition of the forced currency being the last loan officially issued), the debt had been increased by sales of government and railway stock, in order to meet the cost of the construction of railways, and the extraordinary expenditure for less useful objects. Indeed, the outlook became more and more serious until it was really had when the building crisis supervened. Thinking, rightly, that Rome, as capital of the kingdom, that Naples, as a commercial port, had a brilliant future, but discounting that future too early and without sufficient available means, innumerable large houses were built in those cities, for which no tenants were forthcoming. Many contractors did not confine themselves to taking mortgages on houses *fully* built, but on houses *not yet built*. And without thought for the morrow everything was done on credit; bills were put in circulation for which no serious basis existed, and which the issue banks, very often under pressure of the government, were compelled to discount.

The situation was therefore bad in the extreme. On the one hand, the building crisis, on the other, the chronic and growing deficit, and the premium on gold rising daily. After the gold, silver disappeared from circulation, and as a remedy, a poor remedy, notes of two and of one lire were issued, but naturally the more paper notes were issued, the scarcer did the precious metals become. It is useless to say that the march of events on the other side of the Alps, was watched with a distrustful eye from abroad. Not only France, but also England, Holland, Switzerland, continued to sell their Italian Rente, the price of which fell more and more, but the Government, encouraged in this view by the large Italian banks, attributed the fall in the Rente to the machinations of the bears, instead of to the bad financial, monetary and economic situation of the Peninsula. Instead of curtailing the military and other outlays, instead of establishing the equilibrium of the budget, instead of taking the bull by the horns, the Government continued in its former errors, increasing by the issue of Treasury Bonds the floating debt which rose by leaps and bounds, and which in 1892 reached nearly 800 million lire (32 millions sterling). Neither the Government, nor the issue banks, nor the private banks realised the position. Living under that beautiful climate, with which Italy is specially favoured, they still viewed everything *en couleur de rose*.

Besides, the issue banks, without sufficiently taking into account that they were already compelled to come to the rescue of Companies in distress, and to renew their discounts over and over, were led, under pressure of the Government, into joining syndicates formed by the principal private banks for the purpose of maintaining the price of the Rente, which all Ministers of



Finance I have known in Italy, have never thought high enough. The leading private banks, especially, became therefore large buyers of Italian Rente, and buying besides, other Italian securities having but a limited market, they also became locked up, using as they did in these purchases, not only their capital, but even their deposits. Instead of being liquid, instead of giving credit, they asked for it, borrowing abroad on the stocks bought, losing sight of the danger they were exposed to if the lender called in his money, and losing sight also of the cost of the operation, if, as experience has shown, they were obliged to reimburse the loan at an exchange considerably above that at which the transaction was originally done. In other words money was borrowed in Paris, Berlin, Frankfurt, etc., when the gold premium was 4 and 5 per cent., and the repayment had to be made when gold was at 12, 15 and 16 per cent. premium.

The exchange, that faithful barometer of the financial situation of a country, had been subject to severe fluctuations. Although having a decided tendency to rise, it fell temporarily, as a result of the drafts issued against the loans made abroad by the banks, or against the sales of Rente for account of the Government; only to jump up again the moment the Government had to provide for the coupon payable abroad, or when remittances had to be made owing to the balance of trade being against Italy, or when the sales of Rente for foreign account became too numerous. This rise in the gold premium, this rise in the exchanges, were not only unfavourable to Italian trade, they contributed also to the unsatisfactory state of the budget. A large portion of the debt being held abroad, the Government had, as I have just said, to provide the necessary funds for the payment of the coupon, and under this head Italy had to remit annually, from 250 to 300 million lire (ten to twelve millions sterling). It was indeed a matter of no small importance for a budget with a deficit, for an almost empty Treasury, whether the premium on gold was 5 or 15 per cent. As is always the case, the rise in the premium on gold led to all sorts of combinations, among others, Italian speculators bought the coupons of the Rente from holders in Italy, sent them for collection to Paris, and simply drew on Paris for the amount, not only profiting by the high premium, but forcing their own Government to increase the amount of the remittances to be made to Paris. Such proceedings were not of a very patriotic nature, and at the same time led the Government astray as to the amount of Rente held in France. To put an end to this kind of dealing the Government resolved to re-establish the affidavit (which had already existed under the Ratazzi ministry), but it was done in such a complicated manner, rendering the presentation of the Bonds so difficult, specially for the holders in small provincial towns abroad, that the protests made, principally

by the German Chambers of Commerce, induced the Government to relax its regulations, and while maintaining the affidavit, to make its application easier.

At the same time the Government pre-occupied over the situation of the banks of issue, had decided to reorganise them and to place the fiduciary circulation of the country on a sounder basis. These banks, numbering six (the Banca Nazionale nel Regno d'Italia, the Banca Nazionale Toscana, the Banca Romana, the Banca Toscana di Credito, the Banco di Napoli and the Banco di Sicilia), had the right to issue notes to the extent of three times the amount of their Capital.

Therefore,

The Banca Nazionale with a capital of lire, 150,000,000		(had an authorized circulation of)		lire, 450 miln.	
" Banca Nazionale Toscana "	" 21,000,000 "	" "	" 63 "		
" Banca Romana "	" 15,000,000 "	" "	" 45 "		
" Banca Toscana di Credito "	" 5,000,000 "	" "	" 15 "		
" Banco di Napoli "	" 48,750,000 "	" "	" 146 1/2 "		
" Banco di Sicilia "	" 12,000,000 "	" "	" 36 "		
Lire 251,750,000				Lire 755 1/2 mil.	

The law of June 28th, 1855, had, however, authorized the banks to exceed this circulation, provided the excess were covered by a metallic reserve of which two-thirds in gold and one-third in silver. As to the cover in specie for the 755 1/2 million lire, it had been fixed at one-third. The paper issued by the State and the notes issued by one bank might also be used as cover for the issue of the others.

Not only did several of the banks issue more than the legal maximum, but even the Banca Romana committed grave irregularities by issuing false notes, and the revelation of this fact caused the most painful impression, both in Italy and abroad. The investigation of the position of the Banca Romana revealed a most desperate state of things, and without the intervention of the Government who guaranteed all the notes of the Banca Romana, the crisis would have become most acute. Here we see again that the circulation of an institution issuing bank notes, is no indifferent matter, that it is truly a matter of public concern, and, therefore, cannot be disturbed with impunity. That of the Banca Romana was considerable, particularly in Rome. It reached 135 million lire (pounds sterling, 5,400,000). Its notes were accepted by everyone without the least distrust. But the blow fell, the bank note was discussed and no longer accepted. What a disturbing element in business! What danger, above all, for a country whose finances were in an unsatisfactory state.

This danger was at once realised by the Government, who intervened immediately.

The catastrophe of the Banca Romana rendered imperative the reorganization of the issue banks and the law of August 10th 1893 authorized the amalgamation of the Banca Toscana di Credito and the Banca Nazionale Toscana with the Banca Nazionale del Regno d'Italia. The outcome of this amalgamation is the Banca d'Italia with a capital of 300 million lire (pounds sterling 12,000,000) divided into 300,000 shares of 1,000 lire each, of which 700 lire paid up—its paid up capital is therefore 210 million lire (pounds sterling 8,400,000).

This institution, together with the Banco di Napoli and the Banco di Sicilia have the privilege of the circulation, the total of which was fixed for the first four years at:—

800 million lire for the Banca d'Italia.			
242	"	"	Banco di Napoli.
55	"	"	Banco di Sicilia.
<hr/>			
1,097			

or four times the paid up capital of the three banks. As for the Banca Romana, it was at once put into liquidation. The new banking law, which was vigorously attacked, particularly in Genoa, was to come into force on January 1st, 1894, and the privilege given to the three banks was to extend over 20 years.

After the first four years, the banks are to reduce their circulation proportionately, so that at the expiration of 14 years the privilege is to be reduced to 864 million lire.

The metallic reserve, which until then was 33 per cent. was, within a year after the promulgation of the law, to be increased to 40 per cent. of the circulation, but 7 per cent. of this reserve may be represented by first class foreign bills. The metallic portion of the reserve must consist of at least three-fourths in gold.

But whilst the Government had prepared a law aiming at the reorganization of the banks of issue, they had not yet succeeded in improving the financial position of the country, which was growing worse. The Treasury was in sore need of money, and Paris, alarmed by the news from Italy, was selling Italian Rente as fast as possible, all the more so, with a view to support Russian credit, the French "*haute banque*" was using its influence with the French saving community to get rid of its Italian securities, and invest the proceeds in Russian stock.

Whilst struggling courageously against this campaign for a fall, neither the Italian banks nor the Savings Banks were strong enough to check the collapse, which became general when it was known that in order to meet the payment of the coupon of January, 1894, the Government had borrowed 42 million lire in Berlin, giving as security Italian Rente. International speculation, realising the critical position of the Government, and knowing on the other hand that Italian Treasury Bonds were offered everywhere abroad, was convinced that the Government would be unable to reimburse the above advance of 42 million lire, and that therefore the Italian Rente given as security would be thrown on the market. The result was that the Rente was freely sold for bear account and the price fell to 78 and at one time even to 73. These anticipations, as we shall see later on, were fortunately not realised, but under the influence of this fresh and important fall in the Rente, distrust was created abroad, and everywhere a continuation was refused for the advances made to the *Crédit Mobilier* on the guarantee of Italian securities, and that at a time when the Italian public, frightened by the reports set afloat concerning that institution began to withdraw its deposits. In the presence of this critical position, having to reimburse abroad the advances received, and at home the deposits, the fall of the *Crédit Mobilier*, which was locked up to the hilt, was only a question of time, a question of days. It happened on the 30th November, 1893. This disaster was the signal of a general panic. It was not to be wondered at, for, the *Crédit Mobilier* Italian, which from its formation in 1863, had taken part in all the great financial operations in Italy, had besides its head office in Rome, branches at Milan, Genoa, Turin, Florence, Venice, Bari, Naples, Messina and Palermo, and numerous affiliated firms, it was therefore rightly looked upon as the first private bank of the country. Its capital, originally of 50 had been raised to 75 million lire. Its shares were quoted at one time at 1,300 lire. It was in relations with, and the correspondent of the cream of the international banking world, and in its fall it carried with it many other private banks and banking houses in Italy.

Why was the *Crédit Mobilier* left to its fate? Why did nobody come to the rescue? Because, on the one hand, the issue banks, who had been reproached with having locked up too great a portion of their capital, *would* not, or rather *could* not come to the assistance of others without endangering their own position, and on the other hand because the private banks, who had not thought the crisis would assume such proportions, were either in difficulty or too weak. Besides, the difficulties of the Treasury were increasing daily, the Rente fell to 71.50, the premium on gold rose to 16 per cent., the Bourses were in a state of panic, foreign countries were withdrawing from Italy their credit balances, and

at the same time a ministerial crisis broke out. Everything, in a word, was at its worst, and the friends of Italy began to despair.

It was then that the King appealed to Italy's greatest statesman, to Francesco Crispi, to form a ministry, to put the finances in order, to save the country from its deplorable situation, which burst forth into insurrection in Sicily and in Carrara, followed by a run on the Savings Banks, at the moment when, after the fall of the *Crédit Mobilier*, the Banca Generale, one of the most important banks of Italy, succumbed, as well as the Banca Popolare of Alessandria, and that of Brescia.

The dangerous position of the Savings Banks, who had to reimburse their deposits on demand, induced the Government to take energetic measures to enable them to tide over the crisis; that is to say, that three weeks after the new Bank Act, I referred to just now, had come into force, it was suspended by royal decree of the 23rd January, 1894. According to the Bank Act, the issue of bank notes was not to exceed 1,097 million lire; the royal decree raised this maximum to 1,222 million lire, or 125 millions more, so that

The Banca d'Italia instead of 800 could issue	890 million lire.
„ Banco di Napoli „ 242 „	270 „
„ „ Sicilia „ 55 „	62 „
	1,097
	1,222 million lire.

As before, the banks must have a metallic reserve of one-third, to be raised in four years to 40 per cent., of which three-fourths in gold.

Just as it happened in England in 1847, 1857, and 1866, when the Bank Act was suspended, so in Italy the panic ceased as soon as provision had been made for the security in the circulation. The fresh issue of 125 million lire enabled the issue banks to make advances on securities to the Savings Banks, who thereby became more liquid, and were in a position to pay every withdrawal without delay.

But though Crispi had put down the insurrection in Sicily and in Carrara, and though the crisis of the Savings Banks had been overcome, the financial situation was nevertheless still precarious.

The deficit amounted to 177 million lire; Italian Rente was quoted in Paris at 74, the floating debt was nearly 550 millions, and the premium on gold was 15 per cent.

Besides, the Government constantly in need of money, had sold, from 1889—1893, 1,056 million lire (£42,240,000), Italian Rente, producing 801 million lire (pounds sterling, 32,040,000), in cash. It was evident that these methods could not be continued, and that energetic and efficacious remedies had to be applied.

Under these circumstances the Government decided to raise the income tax to 20 per cent., which until then had been 13-20 per cent., so that the net income on the 5 per cent Rente was reduced from the 1st of January, 1895, from 4-34 per cent. to 4 per cent. net. This reduction was severely criticised abroad, more particularly in Germany, where the public had invested heavily in Italian securities, expecting that Italy would punctually fulfil her engagements.

Besides, the Ministry had to repay the 42 millions advanced by Berlin, mentioned just now. Realising that first of all this advance which had been so injurious to Italian credit, must be refunded, and knowing besides that, under the belief that the Government would be unable to repay it, international speculation had sold Italian Rente bear in large quantities, the Minister of Finance, Mr. Sonnino, obtained from the issue banks 200 million lire in gold (pounds sterling, 8,000,000) in exchange for 200 million lire in State notes. This arbitrary operation has, of course been condemned, because in depriving the banks of 200 million lire gold, destined as a reserve against the circulation, the Minister weakened the position of those banks. It is true that the Minister has undertaken to refund the gold to the banks without, however, fixing the date of the repayment. Be it said, that the Minister, who is a distinguished economist, was an unwilling party to this transaction. He had to weigh the *pros* and *cons*, and being called upon first of all to refund the advance, and to take up 28 million lire of Treasury Bonds held abroad, and to withdraw 90,000,000 francs of small coins held by other members of the Latin Union, he felt he must have gold at any cost. Considering the state of the Treasury he could not have procured the 160 millions required for the above purposes, neither the money necessary for the coupons of January, 1895, without having recourse to some other expedient. Taking the gold from the banks, he avoided the necessity of putting up the rate of exchange, and though the operation may be open to objections, it is, to a certain extent, excusable in view of the necessity of the moment, and of the desire of the Minister to improve the credit of the country by soliciting, as little as possible, foreign assistance.

This supply of 200 million lire in gold by the issue banks has had the effect of improving the tendency of the Rente, rather than of impairing the credit of the country, for, the repayment of the

42 million lire advance to Berlin, the redemption of 28 million lire of Treasury Bonds abroad, instead of more being offered, as was expected, and the announcement that during the year 1895, the balance of 21 million lire of such bonds still held abroad would be redeemed, and also the payment in gold for the 90 million francs small coins taken up by the Government from abroad, not only induced international speculation, to buy back Italian Rente previously sold bear, but thoughtful people came to the conclusion that, after all, the situation in Italy might have been grossly exaggerated, and Italian Rentes went up slowly but constantly. At the same time there was a marked improvement in the economic situation of Italy, whose commercial balance sheet had shown from 1884 to 1890 an average deficit of from 200 to 600 million lire, but has improved as you will see from the following figures:—

	Imports. Million Lire.	Exports. Million Lire.	Excess of Imports. Million Lire.
1884 ... ..	1,319	1,071	248
1885 ... ..	1,459	950	509
1886 ... ..	1,458	1,028	430
1887 ... ..	1,605	1,002	603
1888 ... ..	1,174	892	282
1889 ... ..	1,390	951	440
1890 ... ..	1,319	896	423
1891 ... ..	1,126	876	250
1892 ... ..	1,170	958	212
1893 ... ..	1,190	964	226
1894 (11 months) ...	1,044	980	64

Instead of sending abroad for manufactured goods, Italian industry has greatly developed, and home manufactures answer more and more to the home requirements. It must not be forgotten that besides the political Italy, as presented to us by certain newspapers, there is also, and above all, a laborious, an industrious Italy. Thanks to the energy of large manufacturers in Milan, Turin, etc., thanks to the resolve to overcome the difficulties resulting from the rupture of the treaty of commerce with France, the dependence on French goods has in a measure been overcome. In 1892, Italy still imported from France 114½ million lire worth of goods, in 1893, 117 million lire, in 1894, only 103 million lire. On the other hand the exports from Italy into France amounted, in 1892, to 116 million lire, in 1893, to 130 million lire, in 1894, to 136 million lire. Italy has besides concluded commercial treaties with Germany, Austria and Switzerland, thus enabling her to place her goods more easily on those markets.

In a word, if from the financial and monetary point of view, Italy has made serious errors, from the commercial point of view

continued progress has been made, and though the decree of November 11th, 1893, stipulating for the payment of the import duty in gold coin may check the development of commerce by increasing for the Italian consumer the price of articles imported from abroad, this drawback disappears in proportion as the premium on gold decreases and it is indisputable that the tendency of the exchange is more and more in favor of Italy, for various reasons.

In the first place, the improvement in the balance of trade and the increase in the exports I have just referred to are beginning to bear fruit. Besides, foreign countries, seeing that the present Minister has taken seriously in hand the rehabilitation of Italian finances, and convinced that Italy will be in a position to pay its coupons, reduced now to 4 per cent., they have not only stopped their sales of Italian Rente, but increased their holding, having realised by comparing the price of Italian Rente with that of other European State Loans, that it is one of the cheapest in the market.

Were it not for the political crisis actually prevailing in Italy, and the struggle between the Government and Parliament, foreign support would certainly be far more important, for the improvement in the economic situation cannot fail to have a salutary effect upon the budget, whose deficit for 1893—94 (165 million lire), will be considerably reduced for 1894—95, thanks to the efforts of the Government to curtail the expenditure and increase the revenue. Since 1884, the financial year in Italy begins on the 1st of July and ends on the 30th of June. It is, therefore, more than probable that between now and the end of the fiscal year the Minister of the Treasury will be in a position to considerably reduce the deficit, which for 1894—95 is, according to the estimates of the budget, 24 million lire, but which in reality, according to the admission of the minister himself, is still 100 million lire. However, owing to the political conflict I have referred to, the budget has not been voted and the estimates and proposals of the minister are, therefore, open to discussion. What is reassuring, is the conviction permeating the budget speech of the Minister of Finance of December 10th, 1894, that he will overcome the present difficulties, that he will without doubt restore the equilibrium in the budget, and as Mr. Sonnino is a capable man, having been for a long time *rapporteur* of the budget commission and under Secretary of Finances, as he belongs to a family of business men, and possesses besides that quality so essential and almost indispensable for a Minister of Finance, of being a business man himself, his judgment may be relied upon. He has broken away from the policy of some of his predecessors and clearly and frankly laid bare the whole truth, concealing neither the gravity of the situation nor

the necessity of creating fresh taxes, even upon articles of consumption; but he also shows us the future in a less gloomy aspect, and he brings out with every reason the improvement and the continued progress of the economic situation of the country.

And it is the economic improvement that will bring about the financial improvement of Italy, provided the minister continues with persistent firmness to refuse sanctioning every useless expenditure, and to defend the equilibrium of the budget against the exactions of his colleagues and of Parliament. The financial regeneration of Italy can only be accomplished on those lines. The military and administrative expenditure must be reduced as much as possible. The Minister announces already under the head of the War Department a saving of 20 million lire, and though the Government declares it cannot go any further without compromising the defence of the country, it is generally supposed that the last word on this point has not yet been spoken. The allies of Italy must prefer a solvent Italy to a country running into debt to maintain a costly army. At the present time Italy spends for her army 227 million lire (pounds sterling, 9,080,000), its navy, one of the finest in Europe, costs annually 102 million lire (pounds sterling, 4,080,000), a total of 329 million lire (nearly pounds sterling, 13,000,000) which spread over 81 million inhabitants, gives lire 10.71 per head.

As to fresh liabilities, they must be avoided at any cost. There is still a floating debt of 358 millions, and the consolidated debt of Italy amounted on the 30th September, 1894, to 12,499 million lire (pounds sterling, 499,960,000), and is held in the proportion of about one-fourth abroad and three-fourths in Italy.

The Italian people invest all their savings in Italian securities, and the Savings Banks, of which there are, including the Post Office Savings Banks, 5,777, with 4,415,761 accounts, having 1,928 million lire of deposits, are constantly buying Italian Rente, which, by degrees, is finding its way back into the country, as is shown by the following comparative statement of Rente presented for the payment of the coupons on the Five per cent. Stock payable abroad:—

Amount of Rente presented for the Coupons payable July 1st, 1895.		Amount of Rente presented for the Coupons payable July 1st, 1894.	
In Paris ...	Lire 43,539,000	Lire 33,562,000	
" Berlin ...	" 32,848,000	" 35,486,000	
" London ...	" 10,068,000	" 7,372,000	
" Various Countries ..	6,950,000	6,700,000	
Total Lire	93,405,000	Lire 83,410,000	

a difference of 10 million lire, showing on the basis of 5 per cent., that between the 1st January, 1892, and the 1st of July, 1894, about 200 million lire in capital of Italian Rente, have been returned into the country. Also during the last six months the Savings Banks have made considerable purchases, and as there are 8,846,699,015 lire nominal capital of Government 5 per Cent. Stock, that is, lire 442,334,950 Rente, the presentation of coupons abroad for only 83,410,000 Rente shows that nearly four-fifths of the total amount of the 5 per cent. Stock, are held in Italy, but besides a large portion of the 3 per Cent. Italian Stock, and of the 3 per Cent. Railway Debentures, guaranteed by the Italian Government is held in Germany, Holland, Switzerland, etc., so that there remain about 3,000 million lire (pounds sterling, 120 millions), Italian securities held abroad, for which the service of the coupon requires an annual remittance on the part of the Government of 120 million lire (£4,800,000), and with the remittances for the coupons of several tramway and insurance companies and banks, and of the loans of several Italian cities, payable abroad, it may be calculated that Italy has to remit abroad, annually, about 200 million lire (8 millions sterling); besides, Italy must send remittances for the payment of Italian Stock bought by the Savings Banks; against this, Italy, endowed with a lovely climate, is the *rendezvous* of European and American tourists, and official statistics show that, in 1893, there was, in Italy, an average of 60,000 tourists, per day. If we take even only 40,000 tourists, and estimate the expenses of each of them at only 20 francs a day, which is a very modest figure, we find, under this head, an annual influx of gold into the country of 292 million lire; add to this that more than 2 million Italian subjects are living abroad—according to official statistics—there were, in 1893

In France ...	850,000
" Austria ...	65,000
" Switzerland ...	55,000
" England ...	30,000
" Germany ...	25,000
" Argentina ...	480,000
" Uruguay ...	400,000
" Brazil ...	590,000
" United States ...	30,000
" Other Countries ...	13,000
Total ...	2,038,000

nine-tenths of whom are workmen who send their savings to their families, and in estimating their remittances to Italy at 125 francs per head per annum, we arrive at 225 million lire or, without

counting the freights of the merchant navy, 292 and 225 million lire (£20,680,000) which come into the country, that is to say, a total over two and a-half times the amount required to cover the remittances to be made by Italy to foreign countries.

How is it, then, that notwithstanding such important receipts of gold, gold is still at a premium? First, because until now the balance of trade of Italy has shown, as I have said, an excess of from 400 to 600 million lire of imports over exports; secondly, because the payments of the coupon of Italian Rente and other debts of Italy absorbed until now 250 to 300 million francs, and that the purchases of the Savings Banks involve constant remittances abroad, and, finally because the note circulation in Italy is too high. We have seen that the notes in circulation of the three issue banks may extend to 1,222 million lire, besides which there are in circulation 340 million lire of notes issued by the State, and, with the 200 millions issued against the 200 millions of gold borrowed from the banks, and of 68 millions—an old debt to be repaid to the banks—brings the circulation to a grand total of 1,830 million lire (£78,200,000).

But I have shown that instead of an excess of imports over exports, the balance of trade is in favour of Italy, that the sums to be remitted abroad for the service of the debt, coupons on the railways, etc., are reduced from 300 to 200 millions (£8,000,000), and that tourists are constantly bringing gold into the country. This gold finds its way into the banks, who had, at the end of 1894, 434 million francs in gold, and 80 millions in silver, against a circulation of bank notes of 1,083 millions (that is 189 millions below the legal maximum 1,222 millions). On the other hand, the commercial *portefeuille* of the banks is diminishing—

1892	...	...	...	...	598	million lire
1893	...	...	...	...	616	" "
1894	...	...	...	...	289	" "

not only because the paper accepted for discount is subjected to a more rigorous scrutiny, but also because foreign commercial centres, and particularly London, have acquired as a temporary investment of capital first class long bills on Italy, against which Italy draws on London, Paris, etc. These operations have also contributed to the fall of the exchange in Italy, and have created a large abundance of capital on the Italian markets, where good paper is currently negotiated at  $3\frac{1}{2}$  per cent., or  $1\frac{1}{2}$  per cent. below the official rate of 5 per cent.

But, notwithstanding this improvement, I think that if the government really wishes to put the fiduciary system in Italy on

a sound basis—a question, in my opinion, as important, if not more important, than the equilibrium of the budget—the circulation must be reduced, so as to reach by degrees a normal figure. It has always been Mr. Crispi's desire, even at the time of his first ministry, to establish one single bank of issue, and to resume specie payment as soon as it can consistently be done. To put the currency on a sure footing, to restore the equilibrium of the budget, however difficult that may be for the present, must, indeed, be the chief aim of the government. Already within the last few months the general situation has considerably improved, the deficit has decreased, the Rente has risen from 71.50 to 86, the premium on gold has declined from 16 per cent. to 6 per cent., the bank rate has been reduced from 6 to 5 per cent., and the position of the issue banks is stronger; everything, in a word, is improving, and the Germans, always so ready to avail themselves of favourable circumstances, have not been blind to this better situation in Italy. They have established there two new banks which will certainly find a wide field of activity in a country where so much remains to be done. Italy being a large exporter of fruit, of dried vegetables, of oil, of cattle, marble, silk, wines, eggs, and of so many other products, those German banks will find in legitimate current banking business many opportunities of rendering good service to Italian commerce, which is constantly in search of fresh outlets, and which very active and intelligent, aims at meeting its engagements honourably, as is shown by the small number of commercial bills dishonoured, and by the decrease in the number of failures.

England whose exports of coal to Italy, are increasing every year (they amounted last year to £2,380,064), and who also exports to that country, sugar, manufactured articles, cotton and cotton goods, woollen goods, metals and metal goods, chemicals and many other articles, and who imports from Italy, wines, oils, ore, hemp, eggs, fruits, &c.; England, who on several occasions took an active part in large financial operations with Italy, will find, in its turn, great advantage in continuing and extending its commercial and financial relations with a country, which at all times has been proud of the friendship of Great Britain, that great maritime and commercial power of the north, and I am sure, that I am expressing the feelings of you all, in saying that England, that the City, so largely represented here, cordially hopes that Italy will overcome the difficulties which may still stand in the way of her resuming the rank which she ought to occupy among the great commercial nations of the world.

Italy has committed all the indiscretions of youth, but she has also preserved all the vigour of youth. Let Italian statesmen

aim at removing all the obstacles standing in the way of the commercial and industrial expansion of the country, and restore a good understanding between the Government and Parliament, so that together they may pursue a sound policy at home and abroad. Then, but only then, the Minister of the Treasury will be enabled without difficulty to put the finances in order, to put them on a sound and safe basis, and Italy I am convinced, will again see years of great prosperity.

## APPENDIX.

### THE ITALIAN LOAN FOR THE ABOLITION OF THE FORCED CURRENCY.

The Loan for the abolition of the forced currency in Italy occupies, by its importance from a monetary and economic point of view, such a prominent position in the financial history of these latter times that it may perhaps not be unprofitable to recall here the principal phases which culminated in the success of an operation of such great moment for Italy.

That country experienced all the drawbacks of the forced currency, which was inaugurated in 1866 at the time of the war with Austria, and lasted 17 years. During that time the premium on gold was subject to violent fluctuations, in 1866, it rose to 20 per cent., and stood in 1879 between 8 and 12 per cent.

These fluctuations naturally weighed heavily upon the country and introduced an element of uncertainty into all transactions, checking the development of production and trade. The forced currency has been the cause, in Italy, of the prevalence of a higher rate of discount than in foreign countries; its effects have been deplorable upon international credit, but they have been to a certain extent neutralized, thanks to the healthy economic condition of the country, whose agriculture industry and commerce have maintained a continued progress.

The state of the finances of Italy had not admitted of the realisation of the numerous schemes advanced since 1866, for the abolition of the forced currency. From 1866 to 1874, the budget showed a deficit which was regularly overcome by the increase of the fiduciary circulation. It is only in 1875 that the financial situation began to improve. From that date, the budgets show every year, exclusive of railway expenditure, an excess of revenue which from 13 million lire in 1875, reaches 42 million lire in 1879, and 50 million lire in 1880.

In view of this improvement in the budget and as a natural consequence in the public credit, the moment seemed propitious to ascertain whether it might not be possible to deliver Italy from the canker of paper money.

In February, 1879, Mr. Magliani, Minister of Finances, had drawn up a well thought out scheme, but notwithstanding the

favourable aspect of the economic and financial position, the result of energy and perseverance, it was thought advisable, for political reasons, to adjourn this all-important question, fraught with such great consequences; and it was only on November 15th, 1880, that Messieurs Magliani, Minister of Finances, and Micelli, Minister of Agriculture, Commerce and Industry, laid before Parliament, in the name of the Ministry presided over by Monsieur Depretis, a bill for the abolition of the forced currency.

The preamble of the bill was remarkable by its clear exposition in all its bearings of this problem so difficult to solve.

After an exhaustive study of the question, based on very complete statistics, whose figures brought out the excellent position of the public credit in all its bearings, the preamble set forth that the moment had finally arrived for the realisation of the great project of the abolition of the forced currency, and that the financial and economic forces of the country were adequate to bring to a successful issue this great undertaking.

It was proposed to give up the idea of proceeding gradually to the abolition of the forced currency by means of the annual excess of the budgets, and the bill provided for the carrying out of the undertaking without delay by means of a loan producing 644 million lire. Out of this sum, 44 million lire were to be devoted to the repayment of a loan made by the Banca Nazionale nel Regno d'Italia and the balance to the redemption of an equal amount of Consorzio notes.

This sum of 644 million lire appeared necessary to bring back the circulation to its normal condition.

After a long and interesting discussion which enabled the Minister of Finances to set forth the importance of the results to be obtained, as well as the difficulties of the undertaking, the Italian Chambers gave a fresh proof of their spirited policy and speedily adopted the bill, which became law on the 8th of April, 1881, subject only to a few minor alterations.

It was no easy task to give effect to this bill so anxiously wished for.

The financial world admitted that the Minister of Finances, in view of the monetary convention of the Latin Union, of the depreciation of silver and of other secondary considerations, could not have recourse to silver only, because of the respective proportion, he was to take into account, of gold and silver coin to be introduced into Italy; on the other hand the *prestige* enjoyed by the yellow metal in all civilized countries, the facility of its circulation, were cogent reasons if not for its exclusive use, at

least, for its preponderance over the other metal; in a word, while it was readily admitted that the Minister had every reason to decide upon 444 million lire in gold and 200 millions in silver, it was also generally feared in view of recent important exports of gold to the United States, that the various money markets, would not be competent to meet the demand for such an important sum in gold without causing grave disturbances, and to use an expression of the English Press, without drawing heavily upon the gold reserves of the whole world.

At the same time, the events of Tunis had brought about a certain coolness between France and Italy, violent collisions between French and Italian workmen at Marseilles, and the discussions to which these events gave rise in the Italian Parliament, could not fail to create a pernicious impression in the financial world. Several large Paris banking houses fearing both political complications, and the difficulty of procuring 444 million lire in gold, resolved to abstain from taking part in the operation of the Italian loan for the abolition of the forced currency.

There remained however two groups, the one in London, consisting of Messrs. Baring Brothers & Co., C. J. Hambro & Son, and other representative houses of the English Banking world; the other a syndicate of Italian, Austrian, German, Belgian, and Dutch Banking houses, headed by the Banque d'Escompte de Paris and the Société Générale de Crédit Mobilier Italien at Florence.

If from a monetary point of view it was deemed essential to have the co-operation of first class houses in London, the leading market for the precious metals, it was also desirable to secure the co-operation of a Franco-Italian group, from the point of view of the successful placing of the loan; and the understanding between the English and the Franco-Italian groups to take up the loan between them was certainly calculated to ensure the success of the operation. The first meeting of the members of the new syndicate took place at Turin in the beginning of July, 1881; there were present:—

Le Commandeur Bombrini, representing the Banca Nazionale nel Regno d'Italia		
Le Commandeur Balduino	"	the Société de Crédit Mobilier Italien.
Mr. E. C. Baring	"	Messrs. Baring Brothers & Co.
Mr. E. A. Hambro	"	" C. J. Hambro & Son.
Mr. Henry Raphael	"	" Raphael & Sons.
Le Baron G. de Soubeyran and	"	{ the Banque d'Escompte de Paris.
Mr. C. Rosenraad		



At a second meeting these gentlemen met the representative of the Italian Minister of Finance, le Commandeur Scotti.

After three days of delicate and arduous negotiations, the loan of 644 millions was taken up firm on the 8th July, 1881, by the Banca Nazionale nel Regno d'Italia, acting for account of the following groups:—

Banca Nazionale nel Regno d'Italia	...	44	million lire.
Baring Brothers & Co.	...	200	" "
C. J. Hambro & Son	...	200	" "
Banque d'Escompte de Paris	...	200	" "
Société de Crédit Mobilier Italien	...	200	" "
		644	" "

The amount of Rente sold to the syndicate was fixed at 729,745,000 lire (pounds sterling, 29,189,800) nominal capital at 88½ per cent., less 1 per cent. commission, the syndicate reserving to itself the right to claim from the Italian Government Bonds bearing interest from July 1st, 1881.

The contractors undertook to pay 444 million lire in gold, and 200 millions in silver. It was agreed that the payments should be made in silver and gold coins having currency in Italy, and in gold bullion and foreign coins at the standard of the Bank of France. The payments were to begin on August 1st, 1881, and end on September 30th, 1882, giving as a mean due date March 31st, 1882.

In the event of English Consols falling to 98, and French 3 per cent. Rentes to 82, within three months after the signature of the contract, and if this fall were maintained for a fortnight, the syndicate had the right to be freed from the unfulfilled portion of its obligations and the Italian Government was to deliver Bonds up to the amounts already paid in.

The syndicate elected domicile in the offices of the Banca Nazionale nel Regno d'Italia. The management of the syndicate was entrusted to a committee, vested with full powers, with an office in London and consisting of a representative of the following establishments:—the Banca Nazionale nel Regno d'Italia, the Banque d'Escompte de Paris, and the Société Générale de Crédit Mobilier Italien, and of Messieurs E. C. Baring and E. A. Hambro.

Immediately after the signature of the contract with the Italian Government, the syndicate decided upon issuing half of the loan. At a first meeting in London of the Committee, which continued in force until the completion of the loan, and consisting

of Mr. E. C. Baring, Mr. E. A. Hambro, representing also the Banca Nazionale nel Regno d'Italia, and Mr. Rozenraad representing the Banque d'Escompte de Paris and the Société Générale de Crédit Mobilier Italien (who had entrusted its interests to the Banque d'Escompte de Paris), it was resolved to issue on the 13th and 14th July £14,600,000 (365 million francs) of Italian 5 per cent. Rente at 90 per cent., bearing interest from July 1st, 1881.

The subscription was opened in London only, at Messrs. Baring Brothers and Co., and Messrs. C. J. Hambro and Son, but several banking houses on the Continent were appointed to receive and transmit to London the subscriptions received by them.

This subscription was covered about once and a half, and this notwithstanding the very reserved attitude of the French market where money had become very scarce, and where the contango on several securities was from 10 to 15 per cent.

Italian Rente had been specially affected by this state of things. Quoted at 94.50, the highest in June, it fell to 90.97, or 88.80 (ex July coupon), and, in order to prevent foreign speculation from relieving itself of its surplus, the Paris prices remained constantly below the equivalent of prices abroad.

If we take into account that at this time the London market showed but slight interest in Italian Rente, that the German Bourses were speculating in that security, that the Italian Bourses were for their part fully provided with Bonds, it will be easily understood that from the fact that Paris, the true market of the Italian Rente, was not very favourably disposed towards it, the new Rente could not long remain at a premium; a few days after the issue it was dealt in at a loss.

At the same time the London market, fearing that it might have to supply the greater part of the 444 million francs in gold, to be remitted to the Italian Government, continued to show its concern in the loan from the point of view of the export of the precious metals. These fears seemed to be all the more justified by the critical situation in New York. The recent development of exports from Italy, having created a considerable balance in favour of the United States, the New York exchange on London remained near to gold-point, and, therefore withdrawals of gold might be expected at any moment.

The forecasts of a scarcity of money on the London market were soon realised. The withdrawal from the Bank of England of about £300,000 in 20-franc pieces, and an important withdrawal for American account provoked on August 18th a rise in the bank rate from 2½ to 3 per cent.

This rise in the bank rate was ineffective. The excessive rains in England had seriously affected the crops and betokened a larger import of grain from the United States than was expected. This unfortunately happened, and Europe had to make remittances to America to cover its purchases of grain, which caused the American exchange to fall to 4-79½, and gave rise to considerable shipments of gold from London to America.

The Bank of England, as a protection to its reserve, fixed the bank rate on August 25th to 4 per cent., the highest rate adopted since January 29th, 1879. Paris, Brussels, Berlin, and even Switzerland, soon followed the example of London, and put up their rate of discount. It seemed as if the monetary crisis that had been so dreaded was on the eve of breaking out.

Under these circumstances, in view of the extreme sensitiveness of the bourses, and wishing to avoid a monetary crisis, the contractors to the loan endeavoured as much as possible to obtain gold, without applying to the issue banks. They had already begun their shipments before the date fixed by the treaty of Turin; for, on August 1st, more than seven million francs had been delivered to the Italian Treasury. Since then they had bought from the Bank of England a portion of its stock of 20-franc pieces, and until the storm passed over they could buy the Russian gold offered in Berlin to the extent of several millions. Meanwhile the French exchange on London showed a tendency to rise, and at 25-35—36 favoured the export from France to Italy of 20-franc pieces.

The position of the English market did not improve, the American exchange had fallen to 4-79 and brought about fresh withdrawals of gold, which, coupled with home and Egyptian requirements, caused the bank reserve to fall from 41-27 to 30-19 per cent., compelling the central institution to increase the official rate on October 6th from 4 to 5 per cent.

This rise in the bank rate could not fail to have a certain effect on the French exchange on London, which at one time rose to 25-40, a rate yielding a certain margin of profit for the export of 20-franc pieces from Paris to London. This export of gold from France could, however, only be limited; for, on the one hand, the recent withdrawals for Italy had somewhat reduced the available stock, and, on the other hand, the bank of France, which, as is known, has the option of paying its notes in gold or in silver, refused to satisfy the demands for gold for export, so that the balance in hand of that establishment suffered but little. From 606 million francs on September 15th it was only reduced to 598 millions on October 20th.

But while the Bank of France succeeded in protecting its stock of gold, its *portefeuille* was anything but satisfactory. Already in October 1881 there were signs on the Paris Bourse of a coming crisis which broke out a few months later. Speculation, resorting to every available means to obtain the resources necessary to maintain its position on the Bourse, had created a considerable amount of accommodation paper, and the Bank of France, with a view to defending itself against this inrush of bills devoid of a serious basis, and not wishing to encourage such excesses, raised its official rate on October 20th from 4 to 5 per cent.

This timely measure had the desired effect. Speculation, already impressed by the high contango rates, reduced its purchases abroad, and exchange on London falling to 25-24, all fear of gold exports disappeared.

Gold was no longer at a premium and found its way back into the Bank of France, whose stock, which on October 20th stood at 598 million francs, rose on November 3rd to 611 millions, and on November 17th to 627 millions.

Meanwhile, the position in England had assumed a more favourable aspect. The Bank reserve, which in October was 30 per cent., returned on November 10th to 35½ per cent. The money market had recovered its normal state; the American exchange was firm at 4-80½—that is above the gold point—and the French exchange at 25-23.

The syndicate took advantage of these circumstances to continue its purchases of gold without deviating from its original policy to make its purchases in the open market rather than from the issue banks. They acquired a certain quantity of foreign coins, which the Italian treasury, in accordance with the provisions of the treaty of Turin, was bound to accept at the rate fixed by the Bank of France, viz. :—

Russian Imperials	916/1000, or fcs. 3148-29 per kilo.
Sovereigns ... ..	...
American Eagles	900/1000, or fcs. 3093-30 per kilo.
20 mark pieces ...	899½/1000, or fcs. 3091-58 per kilo.

It was from November that the transactions in foreign coins for account of the syndicate assumed an important development.

Berlin supplied Russian gold, Vienna and Trieste, 20-franc pieces, Australia, English sovereigns, Paris 5-franc pieces, and already by the end of 1881, 174 million francs in gold and 35 millions in silver were in the hands of the Italian Treasury.

But, while from that point of view, the prospect was less gloomy, the position of the syndicate was anything but favourable as they had still to place the remaining half of the loan.

The crisis on the Paris Bourse, which had been feared for so long was now in full force. Many will remember the general break down and the state of panic which followed. Italian Rente which during the second half of 1881, had wavered between 88-27 and 90-75, fell at the end of January to 85-60, and at the beginning of February to 83-60.

It was then that London who had for a long time been watching the difficult position of the Paris Bourse, thought the moment had arrived to come to the rescue of the French market, in taking up all that was offered in international stock.

As a result of these important purchases, Paris had become the creditor of London, and the English market soon felt the effect of this position, which, involving remittances to France, sent up the exchange on Paris to 25-12 and brought about the withdrawal of a considerable quantity of 20-franc pieces from the Bank of England. In the face of the situation produced by the French crisis the central institution did not hesitate to adopt energetic measures, and on Monday, January 30th, raised the official rate from 5 to 6 per cent. This step taken on a Monday instead of on Thursday, as usual, took the financial world all the more by surprise, because it coincided with the news of the suspension of the Union Générale in Paris, and was followed on the same day by a withdrawal of £920,000 for France. Never had the export of gold left such a gap in the vaults of the Bank in one single day.

Other centres followed the same defensive policy. Berlin raised its official rate to 6 per cent.; Amsterdam to 5 per cent.; Brussels even went as far as 9 per cent. for the discount of bills drawn on Belgium from abroad.

Fortunately the rise in the American exchange was such, as to justify a hope that the tide of the gold movement might any day turn toward London. Had the Paris crisis been simultaneous with withdrawals for American account, the consequences might have been very serious, but on the contrary the New York exchange on London showed such a marked tendency to rise that all fears of complications on that score were removed.

It could not be expected that after such a severe crisis the French market would return to its normal state within a short time. The wounds had been too deep not to leave their mark for a long time to come. The market in Italian Rente in Paris, remained heavy, and while the English, German and Dutch markets showed a greater interest than formerly in that security,

their support, however valuable it might be, did not, in the opinion of the syndicate justify the issue of the balance of the loan. They felt they must wait until the Paris Bourse improved, and fortunately a certain ease in money enabled the French market to recover by degrees from the effects of the violent shock it had received.

The Bank of France, which, during the crisis, had done its utmost to come to the assistance of the market, persevered in that direction, and on March 2nd, reduced its rate of discount from  $4\frac{1}{2}$  to 4 per cent., and on March 25th, from 4 to  $3\frac{1}{2}$  per cent., its gold stock amounting then to 860 million francs. At the same time, London after having reduced the official rate on March 9th, from 5 to 4 per cent., further reduced it on March 28th, to 3 per cent., and these reductions in the price of money could not but have a beneficial influence on the prices of public funds.

The Italian Rente improved considerably and showed great firmness. Quoted on April 1st at 89-90, it rose to 99-90, and even to 91-15 under the effect of purchases for Berlin and Amsterdam account, where the Italian Government had, at the request of the syndicate, appointed first class houses for the payment of the coupon.

The time for the issue of the balance of the loan seemed therefore within measurable distance, and while not unminful of the fact that the support of the Paris market must be limited, the abundance of money seemed to justify the issue of the remaining half of the loan (£15,583,800, francs 364,745,000).

It took place on May 3rd and 4th, 1882, in London at Messrs. Baring Brothers and Co., and Messrs. C. J. Hambro and Son, at 88. The result was not satisfactory. As at the time of the first issue, it required great efforts to keep up the market in Italian Rente, and when it became known that only one-fifth of the loan had been subscribed, it was soon dealt in below the issue price.

The prospects of the syndicate did not appear to be brilliant, but on the strength of its confidence in the ultimate success of the operation, it took over the unplaced portion of the loan and an official quotation on the Stock Exchange was obtained.

The syndicate undertook, as a result of further agreements, to supply the Italian Treasury, not with 444, but with 491 millions in gold (or 47 millions more) and with only 153 instead of 200 millions in silver.

The syndicate felt all the more justified in entering into this fresh arrangement because by May 31st more than 300 millions in gold had been delivered, and the expected flow of gold from New

York to Europe had already begun on a large scale. Quoted at 486½ at the beginning of May, the American Exchange rose during June, July and August to 488½, and even 489½ was paid for London transfers, a rate which admitted of the export from New York to Genoa of American Eagles and even of some gold bullion. American Eagles were also procurable in London, so that there was no scarcity of gold.

At one time a shipment of gold was more profitable than a remittance in silver, for the 5-franc pieces supplied by the Bank of France at Marseilles for Genoa came out, under deduction of freight, insurance and commission, at the exchange of 25.07, whereas the remittances of the yellow metal came out at 25.16.

The remittances in silver being so disadvantageous, the syndicate thought it advisable to propose to the Minister that the January 1883 coupon, for which cover was to be sent by December 15th, 1882, and which amounted to about 33 million francs, should be paid exclusively in silver instead of two-thirds in gold and one-third in silver, as stipulated by the treaty of Turin. This proposal was certainly such as to cause some astonishment to the Minister, who thought at first that it must be a mistake, but who, as may well be imagined, readily accepted the offer made to him.

It seemed, however, as if the issue of this great undertaking was fated to be surrounded by difficulties. As was shown above, everything went on smoothly from a monetary point of view, but as regards the realisation of the balance of the loan, fresh drawbacks occurred. The events in Egypt in June and July upset the markets, but Italian Rente remained somewhat firm. Quoted on June 10 at 90.50, it only fell to 90.10 on the report of the massacres at Alexandria, and we find it on July 15 (date of the bombardment of that city) at 86.40, ex coupon.

The end of the Egyptian crisis soon brought about a rise in the quotations, and the syndicate took advantage of it to dispose of its stock and to continue its remittances to the Treasury which amounted in the latter part of August to 550 million francs, and toward the middle of September to 550 millions.

Notwithstanding the sales of the syndicate, Italian Rente, being more and more taken up by English, German, and Dutch capitalists, was very firm and an important rise was expected as soon as the syndicate had completed its sales.

This expectation seemed justified by the fact the French market appeared to be more favourably disposed toward Italian Rente, and several offers were made by groups of French bankers to take over the balance of the loan. But the negotiations with

these groups having fallen through, the syndicate accepted the proposal of an Anglo-Franco-Italian group to which the balance of the loan was transferred (£6,444,840).

Having thus realised the balance of its holding, the syndicate gave its attention to the monetary part of the operation, which from that moment presented no further difficulty, and at the end of January, 1883, the Italian Government was in possession of the equivalent of the whole of the loan.

The work was therefore finished. It was a very laborious task, and rarely have so many monetary and financial difficulties had to be overcome. The energy, ability, and perseverance of the contractors of the loan of July, 1881, alone brought the matter to a successful issue.

When the contractors were in a position to inform the Italian Government that they had fulfilled all their engagements, they no longer had at their head, to inspire and aid them by his experience and his abilities, the eminent Directeur of the Banca Nazionale nel Regno d'Italia, le Commandeur Bonbrini, Senator, who had died in March, 1882. His very able colleague and successor in the government of the bank, le Commandeur Grillo, was able, it is true, to the last moment, in following the course laid down by his predecessor, to give to that grand combination the support of the financial institution, which had contributed so much, in all the various political phases, through which Italy had passed in recent years, to the development of the credit of that young and great power.

The monetary aspect of this great operation was without doubt particularly interesting, and the success obtained by the contractors of the loan exceeded their expectations.

The highest authorities on matters of finance, in Italy, Germany, England and France, pronounced as impossible the monetary combinations necessary to enable Italy to attain its object. The contractors of the loan of 1881, while assuming without hesitation the responsibility of this great undertaking, had to study with care every aspect of the question, to weigh every consideration, every argument, and every monetary circumstance in both worlds; they can, with legitimate pride, say that their wise appreciations were justified by events, and the Minister of Finance, Mr. Magliani, showed great judgment in following their lead and in entrusting himself to their experience.

They had every reason, on delivering the last million, to congratulate themselves on having avoided a disturbance of the various financial markets; but in order to attain this end, they had to take advantage of the least variation in the exchange, of the least

change in the movement of money, and to secure all available sums. Buyer one day in New York, the next, the syndicate concentrated all its available resources to secure Russian gold in Berlin; now exporting 20-franc pieces from Copenhagen, Metz, Vienna, Paris, Turin; then turning its attention to Spanish gold, German marks and gold bullion. The syndicate set everything in motion; English, American and even Australian steamers, German, Austrian, Danish and Russian railways, and thus brought to a successful issue one of the largest monetary operations of the century.

In this great movement, consisting of no less than 588 shipments, England figures only for a relatively small amount, and that only for foreign coins withdrawn from the Bank of England. France supplied 66 million francs in 20-franc gold pieces, 32 millions in 5-franc pieces, and 48 millions in subsidiary coins, contributing thus 30 per cent. of the loan, and yet on the 22nd of February, date of the final approval of the accounts of the syndicate, the official rate of the Bank of France was 3 per cent. America supplied about 65 million francs; Russia, more than 25 millions; Germany, in foreign coins, 60 millions, and in national coins, 5 millions; Austria, 38 millions, solely in 20-franc pieces; Australia, Denmark, Switzerland, Belgium and Spain, sums of minor importance.

At the same time the remittances to be made for account of the Italian Government for the payment of the January and July coupons, amounting to 75 million francs in silver, and 45 millions in gold, as well as 14 million francs remitted to Berne for the share of the Italian Government in the St. Gothard tunnel, formed a set-off which must not be lost sight of.

Besides this, the syndicate succeeded in obtaining nearly 19 million francs worth of bills on Italy, payable in gold, the proceeds of which was placed to its credit after encashment.

The Banca Nazionale nel Regno d'Italia and the provincial treasuries did everything to facilitate by a perfect system the transactions of the syndicate. Of all the treasuries, that of Turin was the most busily engaged with the French, German and Austrian shipments; then comes the Genoa treasury, which received almost exclusively the American and Spanish gold, as well as the 5-franc pieces sent from Marseilles; Rome and Venice were more particularly concerned with the Austrian and German gold; Naples with the English sovereigns from Australia. Each one of these treasuries, as well as the great banking houses of Europe, who have either directly or indirectly contributed to this vast operation, have had their share of satisfaction in taking part in so gigantic an undertaking which restored Italy to its normal position.

PARIS, June, 1883.

C. ROZENBRAAD.

## The Institute of Bankers.

H. G. BOWEN, Esq., in the Chair.

### ITALIAN FINANCE.

By CORNELIS ROZENBRAAD, Fellow of the Institute.

[Delivered before the Institute, Wednesday, April 14th, 1897.]

In February, 1895, I placed before you a sketch of the financial situation of Italy. This evening I propose to deal with the same subject, which is particularly interesting now, when Italy, after passing through an unprecedented financial and monetary crisis, has just elected a new Parliament to decide upon a course of action with reference to several questions of vital importance to the country, such as, the colonial policy to be followed in Africa; financial and monetary problems which demand immediate attention; and others equally urgent.

In order to understand the financial and economic situation of Italy, I must remind you, as I did in 1895, how, after years of prosperity and continued success, dazzled and carried away by the astounding progress of the public wealth, Italy, instead of giving a permanent basis to her splendid position, became less and less prudent; was anxious to enter the field of international politics; indulged in dreams of expansion in distant lands; began in 1858 a tariff war with France, which was followed by a financial war; and when the Italian Government and Parliament ordered the construction of numerous railways and magnificent palaces, both of which should have been put off till better times, the financial situation, formerly so brilliant became worse and worse, until the crisis was so acute that the King had to appeal to Francesco Crispi to form a Ministry to put the finances in order and save the country from its deplorable situation.

This was no easy task; for the new Ministry had not only to deal with the crisis in public and private credit, but also with an insurrection in Sicily and in Carrara, followed by a run on the Savings Banks; with a deficit in the budget of 177 million lire; a floating debt of nearly 550 million lire; a gold premium of over 15 per cent. More than 44 of the principal banks and banking houses of the Peninsula were compelled to close their doors, and there was an unprecedented fall in Rome in the value of house and land property. Matters were indeed at their worst.

But the Minister of the Treasury, Sydney Sonnino, one of Italy's ablest financiers, was not to be dismayed by the tremendous

task that lay before him. Breaking away from the policy of some of his predecessors, he laid bare the whole truth, concealing neither the gravity of the situation, nor the necessity of imposing fresh taxes, even upon articles of consumption, and of raising the income tax from 13.20 per cent. to 20 per cent., so that the net income on the 5 per cent. Italian Stock was, from the 1st of January, 1895, reduced from 4.34 per cent. to 4 per cent. net. This reduction was rendered absolutely necessary by the state of the Treasury, which in order to provide funds had sold between 1889 and 1893 no less than 1,056 million lire (£42,240,000) of Italian Stock. It was evident that such methods could not continue, and that it was high time to apply energetic, drastic and efficient remedies.

Under the effect of these remedies, aided by the vitality of the nation, the situation improved gradually, and Italy entered into a period of convalescence. Although the budget for the fiscal year ending June 30, 1895, still showed a deficit of 95 million lire (£3,800,000), there was every reason to hope that the sound financial policy inaugurated by Sonnino would bear fruit, that better times were at hand, and that in the near future the Italian budget would really be in equilibrium.

Unfortunately these bright results had been hoped for without taking into account the African colonial policy, which like the financial and monetary policy of Italy, was in its turn doomed to have disastrous consequences. Instead of bringing all her efforts to bear upon the improvement of the financial and monetary situation, and upon the development of commerce and industry, Italy, aspiring to follow in the footsteps of those great colonising countries, England, Holland and France, and seeing Germany and Belgium obtain fresh outlets by the conquest of countries beyond the sea, had embarked in her turn in colonial adventures, losing sight of the fact that her finances were far from resting on the same solid basis as those of the countries mentioned above, and did not admit of the costly luxury of colonising experiments. Besides, the art of following a colonial policy giving satisfactory results, is not so easily acquired as it seemed to be thought in Rome. The Colonial history of England, of Holland, and of other countries shows the amount of tact, energy and perseverance required to ensure success. And when Italy, having scarcely recovered from the effects of a most acute and prolonged crisis at home, committed several errors in her ill-conceived colonial programme, for which the Crispi Cabinet was made responsible, her well-wishers felt that sooner or later such a course would lead to cruel disenchantments.

Unfortunately these fears were soon realised. After a first reverse in December, 1895, the month of March, 1896, brought the

terrible defeat of the Italian army at Adowa. This catastrophe, which provoked a heavy fall in Italian Stock, brought about also the fall of the Crispi-Sonnino Ministry, which was replaced by the Rudini-Ricotti-Colombo Cabinet.

The task of the new Ministry was not an enviable one. The defeat of Adowa had so moved the country that public order was disturbed. The military prestige of Italy in Europe had suffered, her influence on the Red Sea was impaired, and her finances were imperilled. In this state of affairs two courses were open. To continue the war in order to obtain a victory, and after having recovered the national prestige to limit the African occupation to a small territory, putting off for the moment all idea of expansion, or to seek to conclude an honourable peace.

The continuation of the war meant fresh sacrifices in men and money, whilst the African campaign had already plunged so many families into mourning, and Italy needed all her resources to meet her engagements, and all her forces to maintain in Europe her position as a Great Power, and as a member of the Triple Alliance. It would therefore have been imprudent and foolhardy to continue hostilities.

The Ministry chose the wiser course, and declining to be intimidated by the clamour for retaliation proceeding from those irresponsible persons who failed to realise the true position of affairs, decided to begin negotiations with a view to conclude an honourable peace with Menelik.

But, meanwhile, the uncertainty of the situation made it indispensable that the Government should be ready for any emergency; and as the credit granted for the African campaign was exhausted, fresh funds had to be provided. To borrow abroad, and so increase the existing heavy international debt, was out of the question, for, the events in Africa had weakened the tendency of Italian Rente, and a fresh loan could only have been placed abroad at prices inconsistent with the credit of the country. The Government decided therefore to issue an internal 4½ per cent. loan of 140 million lire (£5,600,000) (96½ millions to appear in the current budget of 1895-96 and the balance 43½ in the budget of 1896-97), thinking that it would be easily subscribed in Italy itself, where the public, faithful to its usual practice of confining the investment of its spare cash solely to Italian securities, had kept up its purchases of Italian Stock to such an extent that in the course of 1895 more than 100 million lire (£4,000,000) nominal capital of Italian consols found their way back into the country.

The anticipations of the Government were more than realised. Of the 4½ per cent. loan of 140 millions, only 60 millions were

issued with great success in April, 1896 (the loan issued at 98 is now quoted at 104), by the Banca d'Italia. The amount was subscribed 22 times over. This favourable result, due more particularly to the investment of the national savings, had the effect of rousing the drooping spirits of the nation, still under the impression of the catastrophe of Adowa, and of encouraging the Government in its efforts to improve the economic and financial position of the country, which, though showing favourable symptoms in the increase of Savings Banks deposits and of railway traffic returns, was far from satisfactory in several other respects. This was shown by repeated heavy failures of important railway contractors, of commercial houses, of the Banca Popolare Cooperativa di Pisa with two million lire (£80,000) liabilities, and of the great Società Generale Immobiliare di Utilità pubblica ed agricola in Rome. This Company, established in 1862, first of all with a capital of 50 million lire (£2,000,000), 50 per cent. paid up, and subsequently reduced to 15 million lire (£600,000), had played an important part in Italy. Besides the fixed dividend of 30 lire, dividends varying from 1883 to 1889 between 5 and 60 lire had been paid. The Company was closely connected with the Società Generale di Credito Mobiliare Italiano, and when the latter came to grief, the fall of the Immobiliare appeared inevitable. It took place on the 18th June, 1896, and disclosed a deplorable state of things. The collapse of this establishment, formerly so powerful, cannot be solely attributed to the crisis in house and land property which prevailed in Rome, it was due also to the disregard of the true principles of sound finance on the part of the management. Although it had been foreseen for some time, this fresh calamity caused the ruin of many people in Rome, and inflicted heavy losses on thrifty Germans and Swiss, who had bought the Debentures of the Company to such an extent that the foreign Banks under whose auspices the issue was made deemed it necessary to take energetic steps to protect the interests of the Debenture holders, who represented investments amounting to 61 millions (£2,440,000). And though the Debenture holders' Committee, composed of capable men, has shown itself to be fully competent, no final result has been obtained so far. The report of the Liquidator at the end of 1896, disclosed liabilities amounting to 112½ million lire (£4,500,000), against assets 51½ million lire (£2,050,000).

About this time a Ministerial crisis occurred, due to differences amongst the members of the Cabinet. The amount of the credit required by the War Department was the ostensible cause of these differences, but in reality they were due to questions of a personal nature; and as it appeared impossible to come to an agreement, the whole Ministry resigned (July 14th, 1896). The Prime Minister in the retiring Cabinet, the Marquis di Rudini, was entrusted with the formation of the new Ministry, which included besides

the Marquis di Rudini, the Marquis Visconti Venosta, Luzzatti, and Pelloux, Minister of War, who stipulated as a condition of his taking office, that the war budget should be again raised to 246 million lire (£9,840,000), which the Giolitti Ministry had already considered as the minimum figure, but which, as a matter of necessity, had been reduced by the Crispi Ministry to 234 million (£9,360,000).

The new Ministry was well received. For, Luigi Luzzatti, Minister of the Treasury, enjoys an international reputation as an economist, while the Department of Foreign Affairs is presided over by Visconti-Venosta, an experienced Minister, who has several times worked side by side with Minghetti in shaping the foreign policy of Italy between 1863 and 1874.

In France more particularly, the new Cabinet was looked upon with favour. For, although it was known that the Triple Alliance would be strictly adhered to, it was also known that the Marquis di Rudini, and his principal colleagues, Visconti-Venosta, and Luigi Luzzatti, would spare no efforts to improve the relations with France, which had become somewhat strained under the Crispi Government. Such a course was much to be desired; for, Italy and France, both of Latin race, have so many interests in common, that a "rapprochement" could only have results satisfactory to both countries. Besides, as the principal object of the Triple Alliance is the maintenance of peace, any improvement in the relations of its members with other countries is but a further step forward in the attainment of that object. And it was not long, thanks to the conciliatory attitude taken up on both sides of the Alps, before the Tunisian commercial treaty was signed. The Paris market, looking upon this event as the precursor of more cordial relations, and even of the signature of a treaty of commerce between France and Italy, bought largely Italian Stock, the recovery of which was still more marked when the negotiations with Menelik ended in an honourable peace being concluded, and signed on the 26th of October, 1896.

It was evident that this good news, known in Europe in November, 1896, whilst improving the quotation of Italian Stock, and hence improving the Italian rate of exchange, was calculated to inspire more confidence in the future, and the country swayed with impatience the financial statement of the Minister of the Treasury, which is generally made in the beginning of December. This impatience was all the more manifest, as it was known that the Minister would deal not only with the budget, but also with the important question of the fiduciary circulation, and with the reorganisation of the issue banks.

The Minister made his statement on the 7th of December, 1896, and reviewed, as is the custom in Italy, the past and present budgets, fixing the estimates for the next fiscal year.

In these budgets are set forth first of all the ordinary receipts and expenditure, comprising as receipts the revenue derived from State property, the direct taxes, the taxes upon articles of consumption, the duties and income tax, the revenue from the various branches of the public service, and other receipts, as well as the contribution of the provinces to the construction of railways. Under the head of expenditure appear the charges of the various Ministries, the service of the public debt, pensions, administrative charges, war, navy, post and telegraphs, and the special account of railway construction. But outside of the Receipts and Expenditure, there is another account called "Movimento di Capitali" which includes under the head of receipts:—

All receipts that do not represent a fixed revenue, and which are the proceeds of the sale of property or of new loans.

And under the head of expenditure:—

The payments relating to capital investments or to the extinction of debts, redemption of loans, advances to provinces or communes.

In former years, when certain items of expenditure were met by the creation of new loans, the "Movimento di Capitali" included under the head of receipts, besides the proceeds of sale of State lands and the collection of claims, the proceeds of sale of Rente and other securities, except those issued to cover the cost of fresh railway construction, which it was decided to show in a special account.

But now that the strict classification of the Budget, accomplished within the last few years, admits of all necessary expenses being met out of the ordinary resources, without resorting to fresh loans, the sums included in the "Movimento di Capitali" are limited:

1. As to receipts—
  - (a.) To the proceeds of the sale of State property.
  - (b.) To the recovery of sums advanced for account of other departments of State.
2. As to expenditure—
  - (a.) To the amounts necessary for the gradual extinction of old debts.
  - (b.) To the advances made for account of other departments of State.

On the other hand we find registered as ordinary expenditure, not only that relating to public works, such as waterways, roads, harbours, &c., but also that incurred in the purchase or erection of buildings for the use of the State.

It must be observed besides, that formerly, not only were the proceeds of new loans inscribed in the "Movimento di Capitali," but far greater sums were included under the head of "Railway Construction," whereas now, the outlay for the new construction of railways, being met out of the ordinary receipts, the Railway construction account includes, only, as to receipts, the share due by other administrations. It must therefore be considered as coming within the scope of true receipts and expenditure. I thought it advisable to give you these particulars, before passing on to the various items of the budget.

In his speech on the budget, the Minister stated that the African war, having considerably modified the financial position of the country, the excess of expenditure over receipts for the budget of 1895-96 (the fiscal year begins in Italy on the 1st of July and ends on the 30th of June) amounted to lire 68,666,315 (£2,746,652), to which must be added a difference of Lire 31,910,370 (£1,276,414) for the construction of railways, making together a deficit of lire 100,576,685 (£4,023,067). On the other hand the account "Movimento di Capitali" showed an excess of receipts over expenditure of lit. 95,983,515 (£3,839,340), thus reducing the deficit to lire 4,593,170 (£183,727), which was further reduced by an increase in receipts and a reduction in expenditure, to a deficit of lire 1,633,000 (£65,320). Had it not been for the extraordinary charges of the African war the budget would have closed with a surplus.

The estimates for 1896-97 are satisfactory. The Minister expects the budget will close with a surplus of lit. 8,314,977 (£332,600), and as peace has been concluded with Menelik, there is every reason to anticipate a large decrease in the extraordinary expenditure caused by the African campaign. Of this sum of lit. 8,314,977 (£332,600), lire 7,000,000 (£280,000) will be devoted to the increase of the navy, whose budget will then amount to 105 million lire.

With regard to the budget of 1897-98, the Minister declared that it would close in equilibrium, although the credit of the War Department, increased by 12 million lire (£480,000) amounts now to 239 millions (£9,560,000), or with the 7 millions (£280,000) for Africa, charged to the War Department, to 246 million lire (£9,840,000), which amount is considered necessary to provide for the most urgent wants of the army.



The equilibrium of the budget has been obtained by economies imposed on the various departments of State, amounting to 4½ million lire (£180,000), and by the military tax, similar to the one in force in other countries, which is expected to produce 3 million Lire (£120,000).

As to the receipts for 1896-97, they have fully confirmed the estimates. For the first eight months of the fiscal year (July 1, 1896 to Feb. 28, 1897). They amount to lire 1,017,315,000 (£40,712,600) and if to this sum we add the probable receipts for the last four months of the fiscal year (March 1 to June 30) based on the receipts of the first 8 months, and subsequent encashments ... Lire 515,185,000 (£20,607,400)

We obtain as probable receipts for the whole year ... " 1,533,000,000 (£61,320,000)

Against estimates as presented in the budget speech of Dec. 7, 1896 " 1,580,722,500 (£61,228,900)

Estimated Surplus ... " 2,377,500 (£ 91,100)

On the basis of these results the estimates for 1897-98 are therefore fully justified, showing that the financial position of Italy has considerably improved.

Instead of budgets closing with enormous deficits, Italy has finally entered into a period of equalised revenue and expenditure and the Minister of the Treasury, in assuming the responsibility of meeting all the expenditure of the State, including railway construction, without resorting to fresh loans, gives the best proof of his confidence in the results he anticipates.

But however satisfactory the prospects of Italian finances may be, the improvement can only be sustained and become permanent if the fiduciary circulation is placed on a sound basis, if the issue banks really fulfil their proper functions, and if the last traces are removed of the financial and monetary crisis which has wrought such havoc in Italy.

This has been fully realised by the Minister of the Treasury, who has understood that the Italian rate of exchange, hitherto subject to such wide fluctuations must have greater stability, and that the Italian banknote must inspire more confidence both at home and abroad.

The fluctuations of the Italian exchange have of late years been very pronounced. Quoted at par, and even slightly below par, soon after the abolition of the forced currency (April 12, 1883),

it became subject to severe oscillations from the moment, when, by the force of circumstances, the issue banks no longer exchanged their notes for gold, and the forced currency, without being officially resolved, became a re-established fact. From that moment the Italian exchange, being deprived of its gold point, was again subject to all the drawbacks of paper money. Little by little a premium gold was enforced, which at first insignificant, gradually increased as the economic situation of the country grew worse, as the evils of the fiduciary circulation became more manifest, and the crisis more or less acute.

We find the premium on gold vary as follows:—

In 1885	..	..	..	½	per cent. to 1	per cent.
" 1886	..	..	..	½	"	par.
" 1887	..	..	..	½	"	1½
" 1888-89	..	..	..	1	"	2½
" 1890	..	..	..	1	"	2
" 1891	..	..	..	1½	"	3½
" 1892	..	..	..	2½	"	5
" 1893	..	..	..	4	"	16
" 1894	..	..	..	6½	"	15½
" 1895	..	..	..	4	"	9½
" 1896	..	..	..	4½	"	12½
and between ..	..	..	..	4½	"	6

the first quarter of the present year.

Such variations naturally weigh heavily upon the country, they give a character of uncertainty to all transactions entered into with foreign countries, and check the development of production and of business. Besides, as a considerable portion of the Italian debt is held abroad, the Government is obliged to make large remittances to Paris, London, Berlin, &c., for the service of the coupon, and therefore every rise in the agio is reflected in the budget, and inflicts an additional burden on the tax-payer. Further, the foreign merchant is obliged in his dealings with Italy, to take these continual fluctuations of the premium on gold into account, and to include in his price the risk of the rate of exchange, hence this increase in price is eventually paid by the Italian consumer, whose burden is already sufficiently heavy in the shape of taxes.

It will, therefore, be seen, that in taking in hand the question of the fiduciary circulation, and of the reorganisation of the banks of issue, Luzzatti acted in the interests of his country. Besides the reasons I have mentioned, the rate of exchange reflects also the opinion held abroad as to the credit of a State, the condition of its Budget, the economic situation of the country, and its foreign policy. Luzzatti's straightforward measures aim at convincing Italy's creditors abroad as well as international commerce, that the days of errors and follies are over, that reason and prudence have prevailed, and that animated by a feeling of true patriotism, men enjoying the general confidence of the country, have set to work in earnest to blot out the faults of the past, to put the

finances in order, and to establish the fiduciary circulation on a firmer basis.

Three things were necessary to attain this object: to reorganise the banks of issue, to reduce the circulation to a figure more in keeping with the requirements of the country, and to guarantee that circulation, three reforms intimately connected.

The system of the plurality of the banks of issue has prevailed in Italy from the very foundation of the Kingdom. Originally numbering six, they have, for reasons which I shall explain, been reduced to three, although many attempts have been made to establish one bank having the monopoly of the issue of notes. These attempts have, however, always met with a powerful resistance, and contrary perhaps to the interests of the country, the plurality of issue banks has been maintained.

But whether there be one or more banks in a country, entrusted with the issue of the fiduciary circulation, it is imperative that such banks representing so to speak the credit of the nation, should always apply the principles of sound finance, and should limit their transactions to such as are permissible to a bank of issue, and I certainly need not go into the details of such transactions before you, Gentlemen, the recognised representatives of the great banks, and of the commerce of the City.

Unfortunately the financial history of Italy, as confirmed by recent events, proves that the issue banks in that country have not always confined themselves to their true mission, but some of them, have engaged in transactions involving the loss of millions upon millions, to the extent that twice within the short space of five years the intervention of the State has been necessary.

Here we see again, that the fiduciary circulation of a country is not a matter of indifference; it is a matter of the highest importance, and cannot be disturbed with impunity. When issue banks are in danger, the consequences and ensuing confusion in business are such, that the intervention of the State has always and will always be indispensable to alleviate the evils of a most dangerous situation. Such was the course followed in Italy at the time of the catastrophe of the Banca Romana, and to-day the State must intervene again in favour of another issue bank, the Banco di Napoli, whose sad history I shall refer to later on.

Grave irregularities were disclosed at the Banca Romana in 1893, grave irregularities were also disclosed at the Banco di Napoli in 1896, whilst the other banks of issue bear only the traces of the follies committed in Italy after the years of prosperity I have referred to.

The fall of the Banca Romana made it imperative to reorganise the banks of issue, and the law of August 10, 1893, authorized the amalgamation of the Banca Toscana di Credito and the Banca Nazionale Toscana with the Banca Nazionale nel Regno d'Italia. The outcome of this amalgamation was the Banca d'Italia with a Nominal Capital of 300 million lire (£12,000,000), 210 millions (£8,400,000) paid up. This bank, together with the Banco di Napoli and the Banco di Sicilia, had the privilege of issuing between them 1,097 million lire (£43,880,000) in bank notes, as follows:—

The Banca d'Italia	800 million lire	(£32,000,000)
" Banco di Napoli	242 " "	(£ 9,680,000)
" Banco di Sicilia	55 " "	(£ 2,200,000)
	<u>1,097</u>	<u>(£43,880,000)</u>

As for the Banca Romana it was at once put into liquidation.

It may be interesting to observe here that the Banco di Napoli and the Banco di Sicilia are both in the peculiar position of having no shareholders. The Banco di Napoli owes its origin to the successive transformation of several establishments of public utility or *Monts de Piété*, in existence during the last century. The Banco di Sicilia was established by Royal decree of April 7, 1843, as a branch of the Banco di Napoli. In 1849, the Neapolitan management having been separated from the Sicilian management, the branches of Messina and Palermo were formed into a separate administration, under the name of Banco di Sicilia, with head office in Palermo.

The Banca d'Italia, which came into existence January 1st, 1894, signed an agreement with the Government on the 30th of October, 1894, taking upon itself the burden of the liquidation of the Banca Romana, of which the State was thus relieved. For this burden the Banca d'Italia was compensated, to a certain extent, by being entrusted with the provincial service of the Treasury. In order to meet the losses which the liquidation of the Banca Romana would entail, the Banca d'Italia undertook to write off one tenth of its Capital, to call up another tenth of the said Capital, to set aside a considerable sum out of its annual profits, and to limit the distribution of the balance of such profits.

The measures voted and confirmed by Parliament were very useful at the time, but were soon found to be inadequate to meet the requirements of the case. It was evident that a fresh reorganisation of the issue banks was necessary, more particularly because they had not only during the crisis unavoidably increased by a considerable amount their unrealisable

assets, in the shape of lands and houses, but had also lost millions in advances made to their *Crédits Fonciers*.

The losses incurred in these advances amount to 40 millions (£1,600,000) in the case of the Banco di Napoli, which, owing to the excessive facilities given in the matter of discounts to second rate clients, has besides lost under that head some 50 million lire (£2,000,000), making a total loss of 90 million lire (£3,600,000).

Under these circumstances two courses only were open to the State; either to leave the Banco di Napoli to its fate, or in the alternative to come to its rescue. It would seem at first sight, that this was a favourable opportunity to put an end to the system of the plurality of the banks of issue, which had, again given such fatal results; and to establish UNA BANCA UNICA, working upon genuine commercial paper, and taught by the painful errors of the past to follow a straight course dictated by the rules of sound banking.

But the fall of a bank of issue such as the Banco di Napoli, would not only have caused a general panic, involving finally the intervention of the State, which is indirectly responsible, and hence compromising the budget; but it might also have had dangerous political consequences, as the people of the South cling tenaciously to their Banks, which are old established (the Banco di Napoli dates from 1816 and the Banco di Sicilia from 1843) and closely associated with the most glorious traditions of the country.

The Government therefore decided not only to maintain the Banco di Napoli, by means of a scheme, quite new in form and very ingenious, which I shall explain shortly, but took advantage of the opportunity to reorganise the three issue banks, in order to put an end to all their former advances to their *Crédits Fonciers*, and to separate once and for all the management of the immobilised assets, from the banking department.

The Government understood that the banknote of the institutions could no longer be based, even partially, upon real estate, but that in future it must be represented solely by assets easily realisable; that the Italian banknote must be such as to command general confidence; that an end must be put to all the palliatives, which until now had only led to disasters; and further that adequate security must be given to the note holder.

The law of August 10th, 1893 provides that the notes of the issue banks must have as a basis a metallic reserve equal to 40% of their respective circulation, but it does not state whether the holders of the notes have or have not a prior lien upon this

reserve, nor does it concern itself with supplementary guarantees, but simply enumerates the transactions which the Banks of issue may or may not undertake. In other words, it limits its provisions to ensuring the payment of the notes, without concerning itself, even in a subordinate manner, with the condition in which the holders of notes would be placed, and eventually the State, in case of a banking crisis which would lead to consequences far more serious than the simple suspension of the payment of the note. The State could not therefore remain indifferent to a question of so much importance, more particularly after the catastrophe of the Banca Romana, when the Government had to guarantee the payment of the notes of that Bank, and in the presence of the difficulties threatening now the very existence of another issue bank, the Banco di Napoli.

This prior right in favour of the holders of notes, to the exclusion of all other creditors, over the assets of a bank of issue which until now did not exist in Italy, exists as you know in many other countries. We all know how effectively the holders of Bank of England notes are protected, how the notes of the National Banks in the United States are entirely covered by a guarantee specially affected in favour of the holders; it is also well known that the existing laws in Switzerland confer upon the holders of the notes a prior right, not only upon the metallic reserve, but also upon the *portefeuille* and upon all the securities deposited in guarantee of the circulation. Again, according to the Dutch bank act, the holder of a note has a right to demand of the Bank of the Netherlands, to the exclusion of any one else, the face value of such note.

Therefore, guided by these examples, and wishing to afford every possible guarantee to the note holders, the Government supplied the deficiencies of the law of August 10th, 1893, by submitting to Parliament fresh measures, fixing for the issue banks a minimum metallic reserve effective or represented by a legal equivalent destined to guarantee a corresponding amount of notes in circulation.

This reserve will be as follows:—

For the Banca d'Italia	...	300 million lire	(£12,000,000)
" Banco di Napoli...	90½ "	" "	(£ 3,630,000)
" " Sicilia...	21 "	" "	(£ 840,000)
Total	...	411½ "	(£16,470,000)

and it is to be absolutely irreducible, independent of any reduction whatsoever in the actual circulation of the above issue banks.

The provisions of the existing laws with reference to the cover in the minimum proportion of 40 per cent. of notes in circulation within the legal limit, and to the entire cover by metallic reserve of the notes in circulation beyond such legal limit, remain unaltered. Therefore, by this reform a metallic reserve of 411½ million lire (£16,460,000) will be secured to the country, even when the actual note circulation stands below the normal limit of 864 million lire (£34,560,000) fixed by the law of 1893. Further by the gradual reduction of the circulation, with which we shall deal presently, the proportion of the metallic reserve to the circulation will automatically increase from year to year, from 40 per cent. to about 48 per cent., even in the unlikely event of the actual circulation of the Banks reaching the extreme legal limits.

For the portion of the circulation not covered by the above irreducible reserve, the note holders will have an exclusive right to the certificates given by the State to the issue banks for their statutory advances to the Treasury in bank notes, and a prior right from the 1st of July, 1897, upon the following assets:—

- (a) Gold specie and silver money (legal) the property of the Bank, after deduction of the portion (40 per cent.) affected to the guarantee of liabilities at sight, and outside of the irreducible reserve fund.
- (b) Italian Treasury bonds and other Italian securities of the State, or guaranteed by the State, at their current value.
- (c) Foreign bills not included in the *portefeuille* affected to the metallic reserve.
- (d) Claims for advances on securities.
- (e) Inland bills not included in the immobilised assets.

By these measures, while the guarantees of the note holders are strengthened, the depositors are relegated to the rank of second place creditors, but as this portion of the new laws is not intended to come into effect until the 1st of July next, they have ample time to take such steps as they may deem advisable to protect their interests, such as the withdrawal of the deposits. As a matter of fact, however, since the provisions of the new banking laws have become known, the deposits of the Banca d'Italia have increased rather than decreased. This may be taken as a mark of confidence not only in the Bank, but also in the wisdom of the ministerial measures.

But these measures would have been incomplete without providing for the reduction in the circulation of the notes issued by the banks. This is absolutely necessary, for it has again been shown in Italy that an excessive paper currency must

lead to a morbid and artificial inflation of prices, to an unhealthy state of things, reflected in a rise in the premium on gold and a corresponding depreciation of the bank note. The abolition of the forced currency in Italy in 1893 would never have been of so short duration if the fiduciary circulation had been kept within the limits of the requirements of the country, if successive issues of paper money had not been made. It is by means of this excessive fiduciary circulation, and by these successive issues that an abnormal situation has been artificially maintained, which has contributed to the financial and monetary crisis I have several times referred to, and the Government has therefore acted wisely in providing for the reduction of the circulation.

According to the law of August 10, 1893, the maximum limit of the circulation of the three issue banks was fixed for four years, that is till the end of 1897, at 1,097 million lire (£43,886,000), allotted, as I have already stated, as follows:—

Banca d'Italia	...	...	...	800 million lire.
Banco di Napoli	...	...	242	" "
Banco di Sicilia	...	...	55	" "

Total ... 1,097

From the 1st of January, 1898, each bank was to commence, and then continue every two years, to reduce its circulation in such a way that at the expiration of 14 years from the 1st of January, 1894, the above limit would be reduced to 864 million lire (£34,560,000), as follows:—

Banca d'Italia	...	...	630 million lire (£25,200,000)
Banco di Napoli	...	...	190 " (£ 7,600,000)
Banco di Sicilia	...	...	44 " (£ 1,760,000)

Total ... 864 " (£34,560,000)

The law of August, 1895, extended the above dates by one year, so that according to existing laws, the reduction should begin January 1st, 1899, and end in 1908. Luzzatti's proposals, on the contrary, provide for a reduction in the circulation of the three Banks, during the current year, of lire 40,800,000 (£1,612,000) to be followed by a yearly reduction of lire 23,800,000 (£952,000) until the above limit of 864 millions (£34,560,000) is reached in 1906. The total reduction thus effected is no less than 233 million lire (£9,320,000) or 21·245 per cent. of the present circulation, and as I have explained, the banks will have as a cover for this reduced circulation, an irreducible metallic reserve amounting to 411½ million lire (£16,460,000), or 47·62 per cent. of the legal maximum of 864 million lire, beyond which any notes issued must be entirely covered by a corresponding amount in gold or silver.

But outside the note circulation of the banks, there is also the circulation of notes issued by the State. The law of July 22, 1894, provides that the State may issue notes up to 800 million lire (£32,000,000), but any amount exceeding 400 million lire (£16,000,000) must be entirely covered by specie, of which 200,000,000 lire (£8,000,000) is to be supplied by the issue banks, and 200 millions by the State.

Apart from the above issue of State notes, there is also an issue of Treasury notes, called Buoni di Cassa, in denominations of 1 and 2 lire, amounting to 110 millions, entirely covered by the subsidiary silver coin withdrawn from the various countries of the Latin Union. But by the law of Aug. 8th, 1895, this issue of 110 millions of Buoni di Cassa by the Treasury, was held to form part of the above 200 millions of State notes to be entirely covered by gold and silver supplied by the State. Further, by the law proposed by the present Government, the issue banks are relieved from the obligation of supplying the 200 millions in specie for the issue of the other 200 millions of State notes which the Government dispenses with. Therefore the maximum circulation of the State is limited to 600 million lire (£24,000,000) of which the following has been issued :—

400 million lire (£16,000,000) in 25, 10 and 5 lire notes, against 80 million lire (£3,200,000) in gold and silver held by the Cassa di Depositi e Prestiti.  
110 million lire (£ 4,400,000) against 110 million lire of subsidiary coin, as explained above, held by the Treasury.

Total 510 million lire (£20,400,000)

The State has therefore still the right to issue 90 million lire (£3,600,000) of notes, of which the Minister of the Treasury proposes to take advantage, not only to save the Banco di Napoli, but also to reduce the statutory advances the Treasury is entitled to demand from the issue banks, and which are—

100 million lire (£4,000,000)	from the Banca d'Italia.
28 " " (£1,120,000)	" Banca di Napoli.
7 " " (£ 280,000)	" " Sicilia.
135 " " (£5,400,000)	

In the deplorable position of the Banco di Napoli, it could not be expected to make such an advance, as all its available

resources are required to carry on its current business. On the other hand it would hardly have been fair on the part of the Treasury to saddle the Banca d'Italia and the Banco di Sicilia with the deficiency in the statutory advances. It is true that the Treasury has never had to exercise its right to the extent of the whole of the 135 millions it could call upon the banks to advance. Now and then, when the coupon of the Rente falls due, the Treasury may be in need of temporary advances of 40 or 50 million lire (£1,600,000 to £2,000,000), and such advances need not even be so large if the Treasury could freely dispose of some 10 million lire (£400,000) in gold or silver.

Under these circumstances it was preferable to reduce the amount of the statutory advances to be made by the banks, by 45 millions, and to issue against this reduction, 45 millions in State notes on account of the 90 millions the State could still issue. The statutory advances are therefore to be reduced as follows :—

	Million Lire.	Million Lire.	Reduction Million Lire.
Banca d'Italia from 100 (£4,000,000)		to 55 (£3,400,000)	15 (£ 600,000)
Banco di Napoli " 28 (£1,120,000)		" 0	28 (£1,120,000)
Banco di Sicilia " 7 (£ 280,000)		" 5 (£ 200,000)	2 (£ 80,000)
	135 (£5,400,000)	90 (£3,600,000)	45 (£1,800,000)

and on the other hand the Treasury issues 45 million lire (£1,800,000) in State notes, against deposit at the Cassa di Depositi e Prestiti of 20 million lire (£800,000) in gold and silver, that is against a cover of a little over 44 per cent.

Such a transaction is in the general interest, for the following advantages are to be derived from it :—

- It reduces the obligation of the issue banks in the advances to be made by them to the State, and hence gives them greater liberty of action in the distribution of the circulation.
- It increases the amount available to the Treasury, bringing at the same time up to 100 million lire (£4,000,000) the amount of gold and silver pledged and to be pledged at the Cassa di Depositi e Prestiti, as a cover for the State note circulation, including the 10 million lire (£400,000) in silver which lie dormant in the Treasury of the State.
- It saves the interest at the rate of  $1\frac{1}{2}\%$  for the service of the floating debt, on a capital of 45 million lire (£1,800,000), which amounts to 675,000 lire (£27,000) per annum, a saving not to be despised under present circumstances and

which will form a certain compensation for the proposed reduction on the circulation tax.

As for the balance of 45 million lire of notes which the Treasury still has the right to issue on account of the 90 million lire referred to, the Minister of the Treasury has used them to save the Banco di Napoli, in the following ingenious manner. The Banco di Napoli is to deposit out of its metallic reserve, 45 million lire in gold (£1,800,000) at the Cassa di Depositi e Prestiti, as cover for a like amount in notes to be issued by the State and which the Banco di Napoli will receive in exchange for its gold. With this 45 million lire of State notes the Banco di Napoli is to purchase Italian Stock or securities guaranteed by the State, which will be converted in registered certificates, to be applied exclusively as a guarantee for the holders of notes of the Banco di Napoli in substitution for the gold of which its metallic reserve has been deprived. It is calculated that the 45 million lire of Stock so purchased will, at the rate of 4.35% per annum, yield a yearly income of lire 1,957,500 (£78,300), which the Banco di Napoli is to apply to repurchase a similar amount of the gold deposited as above, from the State, who will then cancel an equal amount of the State notes issued against such gold. By this means the 45 million lire in gold deposited by the Banco di Napoli at the Cassa di Depositi e Prestiti, would be entirely repurchased in the space of 23 or 24 years, and the metallic reserve of the Bank would thus be reconstituted, besides which, and this is where the merit of the scheme comes in, the Bank would in addition be the absolute owner of the 45 million securities referred to above, and would thus recoup itself to that extent of the losses it is estimated have been incurred in the banking department.

The Banco di Napoli being thus saved from an ir retrievable fall, it is to be hoped that it will henceforth be managed by capable and honest men, possessing a complete knowledge of banking and conforming strictly to the principles of sound finance.

Neither the 45 million lire of notes thus issued, nor the other 45 million lire issued to correspond to the reduction in the statutory advances to be made by the Banks, will cause an increase in the general circulation. For, as I have stated, the total reduction in the circulation of the Banks will in nine years amount to 233 million lire (£9,320,000), and the circulation itself will then amount to 864 million lire (£34,560,000), covered by a minimum metallic reserve of 411½ million lire (£16,460,000), whilst the total State issue, including the proposed issue of 90 millions, will not exceed the authorised limit of 600 million lire (£24,000,000). It must further be observed that the issue of the 45 million lire of notes on account of the Banco di Napoli, is

temporary and decreasing, and as I have explained, will be entirely cancelled within 23 or 24 years. The Minister of the Treasury further proposes that the Crédit Foncier of the Banco di Napoli shall pay half-yearly to the Bank the income tax (15 per cent.) and the circulation tax (180 per mille), otherwise payable to the State, on the Debentures issued by the Crédit Foncier. The amounts so paid shall be invested in Italian State securities or securities guaranteed by the State, and the Bank will thus gradually recover the loss of about 40 million lire (£1,600,000) incurred in advances to its Crédit Foncier.

But besides putting the Banco di Napoli in a position to continue, it was necessary to strengthen the position of its Crédit Foncier which could not be allowed to fall as it would have brought down the Banco di Napoli also. With that object in view the Government proposes to convert the present 5 per cent. (4½ per cent. net) debentures (cartelle) redeemable in 10 years, issued by the Crédit Foncier into 3½ per cent. debentures, free from all present and future tax, redeemable in 50 years by annual drawings and guaranteed by the State. This guarantee of the State will after all be only nominal, because thanks to the reduction in the interest and the extension of the period of redemption, the Crédit Foncier will not only be able to meet the service of the debentures, redemption and interest, but will also be able to cover annually part of the losses which have so far been incurred. These practical provisions and reforms will infuse new life both in the Banco di Napoli and in its Crédit Foncier, and enable them not only to resume their former path of usefulness, but also to make up the losses of the past.

But it was not only in the Crédit Foncier of the Banco di Napoli that losses had been disclosed, the Crédit Foncier of the Banco di Sicilia, and the Crédit Foncier which the Banca d'Italia has inherited from the late Banca Nazionale, have also given unsatisfactory results. The Banco di Sicilia is obliged to take out of its reserve fund 1,700,000 lire (£68,000) to cover losses under this head, and the Banca d'Italia, which has advanced to its Crédit Foncier upwards of 46 million lire (£1,840,000), is compelled in order to partially cover this loss, to reduce by 30 million lire (£1,200,000) its Capital which will be then 240 million lire nominal, 180 million lire paid up.

The above will show how inadvisable it was on the part of the Government to allow the issue banks to embark in Crédit Foncier transactions, which have only contributed to the reduction of the available resources of the issue banks, already so heavily loaded up, as I will show presently, and which certainly do not come within the scope of operations to be undertaken by issue banks.

The pitiful results given by the *Crédits Fonciers*, managed by the issue banks, are in striking contrast with the satisfactory results of an independent institution of *Crédit Foncier*. I mean the *Istituto Italiano di Credito Fondiario*, which was established by Royal decree May 6, 1891, under the auspices of powerful banking houses both in Italy and abroad, with a nominal capital of 100 million lire (£4,000,000), of which 40 million lire (£1,600,000) issued and paid up. From its formation, its business prospered and its profits increased. For the first six months of its existence in 1891 the profits amounted to

		Lire 965,677.77 (£38,627) permitting the distribution		of a dividend of 2 %	
for 1892	„	1,380,917.05 (£55,236)	„	„	8.25 %
„ 1893	„	1,521,336.56 (£60,853)	„	„	3.60 %
„ 1894	„	1,690,542.47 (£67,621)	„	„	4 %
„ 1895	„	1,859,449.67 (£74,377)	„	„	4.40 %
„ 1896	„	1,918,011.22 (£76,520)	„	„	4.50 %

On the 31st of December, 1896, this *Crédit Foncier* had granted loans on mortgages, to the extent of 58,070,721 lire (£2,322,828), and issued 23,027,000 lire (£921,080) of 4½ % debentures, quoted at 504.

Such results, to which I am pleased to be able to call your attention, after having dwelt upon so much that is unsatisfactory, form a striking contrast with those of the *Crédits Fonciers* affiliated to the issue banks, and it is not surprising that the Minister, who calls these *Crédits Fonciers* the canker-worms of the issue banks, has prescribed in the new laws regulating the banks, that from the 1st of January last, the advances of the issue banks to their *Crédits Fonciers* are to be made only upon sound securities.

It is to be hoped that in adhering strictly to these instructions, the losses I have referred to will not occur again, and that the issue banks will be in a position to devote all their energies to become more and more liquid, and to dispose on suitable terms of all the houses, lands, etc., of which, by the force of circumstances, they became the owners owing to the disasters of the crisis. The banks of issue, notably the late *Banca Nazionale*, were often compelled under pressure of the Government to make advances to private banking and other concerns, in order to ward off as much as possible the failures threatened by the heavy losses in speculations in lands and houses, which became the absolute property of the issue banks as soon as the private banks and other houses came to grief.

I am the first to acknowledge that such operations are inadmissible in a bank of issue, and it is only by having witnessed that period of excitement which prevailed in Rome, when every one

thought he would become a millionaire by speculating in lands and houses, followed by the cruel deceptions involving the ruin of so many people, that it can be realised how the banks of issue, departing from the principles which ought to prevail in a bank responsible for the fiduciary circulation of the country, have under pressure of the Government consented to engage in such operations. But it would be wrong, in speaking of the immobilised assets, to think that the advances made by the issue banks are either insufficiently covered or lost. On the contrary the banks have no sounder claims, and no better security than those houses situated in the best parts of Rome which yield a regular and adequate income, than those lands situated in the very centre of the Capital, which they have acquired at prices covering every possibility of loss. It must not be overlooked besides, that the population of Rome is gradually but surely increasing every year, and that sooner or later it will become necessary to buy those lands, to provide fresh accommodation for the increasing population, more particularly if the finances allow the Government to carry out the public works it has in contemplation, and which will entail fresh demolitions. But matters will proceed slowly, all these lands and houses will not be sold for several years. It is true that the banks realising the necessity of disposing of these immobilisations, which check their development, have not neglected to do so whenever a favourable opportunity occurred, which is proved by the following figures:—On the 20th February, 1894, the immobilisations of the three issue banks amounted to 686½ million lire (£25,460,000); on the 31st of October, 1896, they had been reduced to 499 millions (£19,960,000) a decrease of 137½ million lire (£5,500,000), and deducting the advances made to the *Crédits Fonciers*, which have been settled as I have explained, the present figure of the immobilisations is reduced to about 400 million lire (£16,000,000).

But as long as these 400 million lire of lands, houses, mortgages, etc., weigh upon the banks, and form part of the cover of their note issues, the banks will never fulfil the conditions required of an issue bank. The Minister has therefore taken a step in the right direction in providing that the liquidation of these immobilised assets should be entrusted to a special department of the banks, distinct from the banking department, having its own profit and loss account, and enjoying the privilege of issuing redeemable debentures, under regulations to be devised by the State and approved by Royal decree.

Of the measures proposed by the Minister of the Treasury, the old Parliament sanctioned the provisional application of the most urgent ones, as for instance, those referring to the *Banco di Napoli*, but the Bill containing the above measures has still to be

ratified by the new Parliament, and in view of the Government majority, there is very little doubt that it will become law.

In reviewing the measures for the reorganisation of the issue banks, we see that the predominant thought is to put the fiduciary circulation on a more solid basis. And the first measures prompted by this thought, are intended to strengthen the existing guarantees attached to the circulation, by fixing an irreducible minimum metallic cover, which in reality means a proportionate increase of the metallic reserves of the issue banks, destined exclusively to the reimbursement of the notes. The same thought has prompted the measures intended to anticipate the normal reduction of the circulation, so as to diminish its total already at the end of 1898 by nearly 64 million lire (£2,560,000). Further, the obligation of the Banks to make advances to the Treasury will be reduced by 45 million lire (£1,800,000), so that the contraction of the circulation added to the increase of its guarantee cannot but lead to the increase in value of the bank note, and to a favourable influence on the rate of exchange, in so far as it is dependent on the intrinsic value of such bank note.

With regard to the tax on the circulation, it is obvious that its present high rate (1 per cent.) checks the development of the national economy, by imposing a heavy burden on the issue banks. By the new law the Government will gradually reduce this tax in proportion as the Banks realise their immobilised assets.

The rate of discount in Italy is also too high, as is generally the case in countries with a forced currency. It has been maintained at 5 per cent. since 1895. But at that rate, first class acceptances do not find their way to the issue banks, but to Milan and Genoa, where in the open market a plentiful supply of money being often available, the best paper is discounted at rates considerably below that of the issue banks. Under these circumstances the issue banks have been authorised to discount first class signatures at 1 per cent. under Bank rate, but even at these conditions they cannot always compete with the North. It is, however, expected that the new ministerial measures will have the effect of bringing the official rate of discount of the issue banks nearer to the rate of the open market. Everything points to an improvement in this direction also.

Of course, so long as the banks are not in a position to exchange their notes against gold, the Italian rate of exchange will not have a gold point, and will still be subject to variations; but, as we have seen it in Russia and Austria, a rate of exchange based on paper money may gradually acquire a greater stability by a series of measures such as are now proposed by the Italian Government, intended to improve the credit of the State and of the banks entrusted with the fiduciary circulation; till, by a better

financial situation, and the development of the power of home production, the position justifies the resumption of specie payments. But I cannot sufficiently insist upon it that a rate of exchange reflects also the opinion held abroad of the solvency of a State, of its general economic condition. Already the opinion of international commerce has undergone a favourable change as regards Italy, and we have not experienced those sudden variations in the premium on gold in Italy, which under other circumstances, would have been provoked by the troubled period through which Europe is passing. Besides the measures of the Government for the reorganisation of the circulation, the certainty that Italy, determined to follow a policy of peace, will adhere to the Concert of Europe in the Eastern question, and the commercial development of the country, which I shall refer to presently, have created a good impression abroad. The Paris Bourse, which has always been recognised as the leading market for Italian securities, and which follows with a watchful eye all that takes place on the other side of the Alps, continues to absorb large quantities of Italian Rente, as is shown by the following figures relating to the payment of the coupon on the Rente in Paris, London and Berlin.

	January, 1896.	July, 1896.	January, 1897.
Paris ...	Lit. 13,665,000	Lit. 14,542,129.77	Lit. 14,706,474.52
London ...	" 3,286,080	" 3,010,480.00	" 3,042,900.00
Berlin...	" 13,100,708.74	" 11,388,680.25	" 11,741,100.00
	" 29,857,788.74	" 28,939,310.02	" 29,490,538.49

As will be seen, England and Germany, have also increased their purchases in Italian Rente, since July, 1896, but they are still below the amounts for January, 1896.

According to the budget for 1896—1897, the interest to be paid by Italy on its public debt amounts for

Interest on Consolidated debt to Lit. 471,607,991.80 (£18,864,319)	
• Redeemable	93,201,897.64 (£ 3,728,976)
• Various	121,818,499.72 (£ 4,872,739)

Total Lit. 685,628,389.16 (£27,465,138)

or 43.93 per cent. of the total expenses.

The accounts of the Treasury on the 31st December 1896, show that the public debt of Italy was at that date—

	Nominal Capital.	Interest.
International Debt ..	Lire 11,054,121,885.04 (£442,164,873 )	Lire 495,875,374.07 (£19,835,010 )
Internal Debt ..	" 1,890,388,648.52 (£ 75,975,545 )	" 87,307,905.02 (£ 3,492,316 )
Total ..	Lire 12,953,510,480.56 (£518,140,418 )	Lire 583,183,179.09 (£ 23,327,326 )

In deducting from the above international debt, the registered



certificates which are not payable abroad, bearing interest at 3 per cent., 4 per cent. and 5 per cent., amounting to—

Nominal Capital.	Interest.
Lire 3,469,132,700 (£138,765,308).	Lire 171,017,144 (£6,840,685).

we find the true international debt to be—

Nominal Capital.	Interest.
Lire 7,584,989,188 04 (£303,309,565).	Lire 334,858,130 07 (£12,994,325).

According to the statistics resulting from the application of the affidavit, the international debt is held in the proportion of 2/3 in Italy and 1/3 abroad, but as we know, Italy repurchases every year abroad a considerable amount of its Rente, and it is these purchases, which turn against Italy the rate of exchange, already influenced by the remittances to be made to meet the coupon payable abroad.

On the other hand the rate of exchange is influenced in favour of Italy by the remittances which the majority of the two million Italians residing abroad send home to their families, and by the constant increase of the exports.

The foreign trade of Italy has now almost entirely recovered from the shock it received by the tariff war with France, and the exports continue to progress favourably, whilst the imports show a constant decrease. With the increase of the population (now at 31 millions) the home trade of Italy is steadily improving, and the import of manufactured articles diminishes in proportion as Italian industries develop. For 1896 the imports amounted to 1,174 million lire, against 1,187 million lire in 1895, while the exports for 1896 amounted to 1,052 million lire, against 1,038 million lire in 1895. This improvement bids fair to be maintained, for the imports for January and February, 1897, show a decrease of 5½ million lire over the corresponding period for 1896, while the exports for the same period of 1897 exceed by 15½ million lire those for the corresponding period for 1896. The situation is therefore better, and will no doubt continue to improve, thanks to the energetic efforts of the large houses in Milan, Turin and Genoa, to secure fresh outlets, and owing to the assistance afforded by the Government, which has established at the Ministry of Agriculture, Commerce and Industry, a special department for information giving to the commercial world the latest reports as to production, freights, means of transport, names of foreign houses, tenders, and to every matter calculated to favour the development of commerce and industry. In the execution of this programme the Government is admirably assisted by the Italian Chambers of Commerce established abroad, which have shown themselves to be quite equal to their task, notably the Italian Chamber of Commerce in London, whose efforts are

constantly directed to the extension of the commercial relations between England and Italy. The exports from Italy to Great Britain of wines, eggs, oil, hemp, oranges and lemons and other products maintain a steady progress, whilst England is still the principal exporter to Italy of coals, pig and scrap iron, steel, fish, &c., and has almost completely distanced its competitors in certain branches, and is still doing its utmost to gain the ascendancy in others. It is an undisputed fact that at the present time, when competition and the struggle for commercial supremacy are so keen, every nation must be constantly on the alert, and from what I have said it is evident that the Government at home and the Chambers of Commerce abroad realize all the importance of promoting Italian commerce, which alone can secure for Italy an honourable place among the great commercial nations of the world. Italy, admirably situated from a geographical point of view, intersected by an extensive network of railways, the receipts of which show a permanent increase, in close relation with the rest of the world, having an industrious and thrifty population, has ready at hand everything needful to command success and to take a leading part in international trade; but, apart from her natural resources she must concentrate all her efforts at home and give up her colonial aspirations. That is why it is hoped that the new Parliament will give its unstinted approval to the African policy of the Government and renounce the adventures which have cost the country 500 million lire and 8,000 men, endangered the finances and cast a gloom all over the country. To continue the former colonial policy would expose the country to fresh misfortunes, would necessitate the imposition of new taxes (whereas it would be more in the interest of the country to reduce the heavy burden of existing taxation), or would involve a new reduction of the interest on the debt, that is to say the repudiation of solemn engagements, and thus bring dishonour upon the country.

But the composition of the new Parliament, and the Government majority, give every reason to hope that Italy will turn in the right direction, that she will endeavour to consolidate the equilibrium of the budget, and continue to further develop her commerce and industry. In this way the rate of exchange will permanently turn in favour of Italy, and gold will return to the country, in addition to that brought every year by the numerous foreign visitors who come to enjoy in Italy a delightful climate and to admire all the beauties of her art treasures.

This year, especially, visitors have come from all parts, the season is finer than ever. The rate of exchange favourably reflects this movement, and the stock of gold in the Banca d'Italia has increased to 309 million lire (£12,360,000), besides 62½ millions

(£2,500,000) in silver, thus already exceeding by 71½ million lire (£2,860,000) the minimum amount of metallic reserve fixed by the new banking laws.

This establishment, as I have already explained, had to make great sacrifices to cover the losses inflicted upon it by the *Crédit Foncier* of the *Banca Nazionale*, by the liquidation of the *Banca Romana*, etc., but now that its position is so much improved, and that its immobilised assets will be realised more speedily and effectually, it may be safely stated that, thanks to the prudence and ability of its general management assisted by an experienced staff of officials, the *Banca d'Italia*, as the first and most important of the three issue banks, will be in a position, to play a leading part in the affairs of the Peninsula. Even now it renders important services to the country, as is shown by the bulk of its business amounting in 1896 to 24,480 million lire (£977,200,000), an increase of 1,250 millions (£50,000,000) over 1895. Its profits for 1896 amounted to lire 5,727,775.48 (£229,111) representing an increase of lire 1,302,188.62 (£52,087) over the profits for 1895, although the Bank had to make a provision of lire 1,318,974 (£52,758) for bad debts, and to set aside two million lire (£80,000) for the liquidation of the *Banca Romana*, and six millions (£2,400,000) for its immobilisations. Its *Vaglia* (sort of cheques, which often circulate on the London market) issued by and payable at any of the offices of the Bank in Rome and in the country, amounted in 1896 to lire 2,956,065,531 (£118,243,621).

The Bank is further entrusted, as I have already stated, with the provincial service of the Treasury, receiving at its 83 country branches the proceeds of the taxes. These funds, which would otherwise remain unproductive in the hands of the State, are profitably employed by the Bank in the interest of commerce and industry, which, as we know, is the general interest of the country. And it may be said that in putting these funds back into circulation, and employing them in the business of the country, a certain return is made to the taxpayer, by the facilities given, which benefit the whole community. The 83 country branches are also rendering valuable service, and now that an understanding has been arrived at between the three banks of issue as to the course to be followed for discount business and the mutual information to be supplied by each of them as regards the position and liability of the various commercial houses, whose acceptances are offered for discount, the possibility of heavy losses will be considerably reduced and the competition between the country branches of the three issue banks will nearly cease, now that several of the branches of the *Banco di Napoli* are already or will soon be closed. It would even be

advisable to limit the branches of the *Banco di Napoli* to the region south of Naples, and those of the *Banco di Sicilia* to the island of Sicily, allowing them only to maintain their offices in Rome, which are necessary for their transactions with the Government.

Besides the three issue banks, there are two important banks established two years ago, with the aid of German, Austrian and Swiss capital, they are the *Banca Commerciale Italiana* and the *Credito Italiano*, which are operating largely in the commercial and industrial business of the country, and have given for 1895 and 1896 dividends of 6 and 6½ per cent. respectively.

There are also in Italy 950 Popular Banks. These banks receive on deposit the savings of small tradesmen, farmers, artisans and others, and afford them every facility in the matter of credit.

The capital invested in railways amounts to lire 779,708,571 (£31,188,342) that invested in mining enterprise to lire 52,538,215 (£2,101,528) besides numerous commercial, industrial and navigation companies, representing a capital of lire 927,609,422 (£37,104,376).

The capital of all these establishments amounts to about 1760 million lire (£70,400,000). This, represents to a certain extent the financial power of Italy, and has been for the Italian people a source of prosperity, which from the upper and middle classes soon spread to the working classes, as is proved by the 762 savings institutions which, independently of the Popular banks exist in the Kingdom, and which have issued 445,075 deposit books, representing deposits to the extent of 319 million lire (£12,760,000). At the same date the ordinary savings banks held deposits amounting to 1,344 million lire (£53,760,000) against 1,307 million lire (£52,280,000) in 1894; and the postal savings banks have issued 2,997,562 deposit books representing 478 million lire (£19,120,000). This represents a grand total of about 2,141 million lire (£85,640,000).

It will be seen therefore that the habit of thrift is firmly established in the Italian nation, and, owing to the increase in the general wealth, has already produced considerable results. You see, Gentlemen, that as well as the Italy, with her political quarrels, which certain newspapers are always anxious to keep before us, there is a thrifty Italy which works, develops the resources of its prolific soil, seeks to secure fresh outlets to extend her foreign trade, accumulates the fruit of her labour, and it is that Italy which most interests us; it is that Italy which will provide the means to overcome all the difficulties still existing, which, with

persevering and close industry, will supply the necessary funds to ensure, and maintain, the equilibrium of the budget.

The history of nations can be read in their budgets. The national glories and also the national mistakes are mirrored in the budgets. Those of past years bear the traces of the follies and of the errors committed in Italy; those of the present show how much the situation has improved. Not only has the equilibrium of the budget been reached, but the Minister of the Treasury has already remitted abroad, the necessary funds for the payment of the July coupon, while he has still at his disposal a balance of 50 million lire (£2,000,000) of the last internal loan, which can still be issued.

Therefore, now that Italy has improved her financial position, that her circulation is to be reorganised, that her commerce and industry are steadily developing, her credit is solely dependent upon the course she may herself choose to follow.

Italy must understand that the instability of Ministries which come to power by the efforts of one coalition, only to be immediately overthrown by another, do not admit, in the conduct of the affairs of the country, of that continuity of policy, which is alone productive of serious results. Let the new Parliament manifest once again that fervent patriotism, which was characteristic of Parliament in the days of Depretis and of Minghetti, sanction the laws I have referred to, and support the Government, in all they may propose, to remove the last obstacles which counteract the expansion of trade and clash with the welfare of the country.

It is only in following a wise and prudent policy, both at home and abroad, that Italy will attain that position to which she is entitled, and we shall then rejoice to see that Italy, that great and valiant nation, that friend of England, has, by the work of her sons, and the patriotic efforts of her statesmen reached a situation worthy of her history and of her traditions.

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